



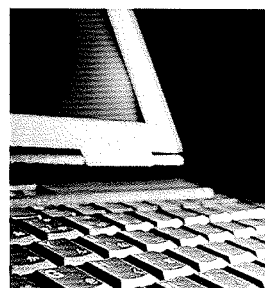
## NATIONAL BANK OF ROMANIA BANKING SUPERVISION – PHASE III

---

REPORT FOR THE CONTRACT END

AS OF 31 OCTOBER 2002

---



Presented by:

Barents Group a division of KPMG Consulting, Inc.  
(BearingPoint, Inc.)

Presented to:

United States Agency for International Development  
Contract No. NIS-I-00-99-00001-00, Task Order No. 801  
CTO Mr. Peter Tagge

Also Referencing Contracts:

NIS I-01-99-00001-00  
EPE-I-00-95-00048-00, Task Order No. 14

PREPARED BY PROJECT ADVISORY TEAM INCLUDING:

JOHN F. EWALD, III, RESIDENT ADVISOR  
KATHRYN WOOLFORD, RESIDENT ADVISOR  
LORI A. BITTNER, PROJECT MANAGER  
JAY S. DOEDEN, SHORT-TERM ADVISOR

WITH INFORMATION PROVIDED BY  
SHORT-TERM EXPERTS UTILIZED ON THE PROJECT

---

---

## Executive Summary

The improvement of bank supervision practices in Romania has been key to overall economic reform. The United States Agency for International Development (USAID), Barents Group of KPMG Consulting, Inc and the National Bank of Romania (NBR) have fostered a program of effecting bank supervision reform. Close cooperation between international resident advisors and the NBR Bank Supervision Department created an opportunity for important improvements and change.

USAID began its technical assistance program in 1997 at a time when the Romanian economy and banking system were suffering from slow-to-start economic reforms, government policies which impeded reform as well as the adverse impact of insider abuse. The initial program included one resident advisor which was expanded to two advisors during the course of the initial contract. Since the NBR faced a banking crisis that included the serious decision of removing several banks from the banking system, USAID believed that increased technical assistance was necessary. In addition to the foundations of bank supervision, our advisor was asked to focus on problem bank identification and resolution. This work all included the development of internal policies and procedures.

The implementation and institutionalization of a risk-based bank supervision function and culture is a multi-phased endeavor. Policies and procedures are developed in order to enable bank supervisors to access and evaluate the banking system. The subsequent development includes designing and implementing specialty tools, enhanced training and most of all, the evolution of a sustainable supervisory culture. USAID and Barents Group created a program that encouraged close counterpart cooperation on the development of these systems as well as the creation of a legacy of long-term improvements to outdated practices. Barents' extensive experience in Central and Eastern Europe provided the 'best practices' approach to this program.

A critical impediment to the progress of technical assistance in the early years was the lack of access to the onsite bank supervision staff. The NBR management team was not willing to allow our resident advisor to participate in the onsite bank examination process. The Barents advisors were innovative in their approach by adjusting their workplan to provide assistance from offsite. However, in this revised format, they were prevented from being onsite with their counterparts to work with the testing and customization of the revised bank examinations manual. Given this impediment, the process towards implementing and strengthening the supervisory process based on international 'best practices' was slowed.

USAID and Barents have shared in this technical assistance effort over the past five years (1997 – 2002). The technical assistance program was delivered in three phases, each based and building upon the principles of risk-based bank supervision. Due to the impediments listed above, the NBR continues to refine its bank supervisory systems and controls.

Although impediments have existed, Barents Group has taken a proactive approach to providing technical assistance that reflects the local environment yet accommodates such challenges.

The foundations for improving banking and financial intermediation in Romania have improved. The USAID technical assistance program has provided expertise which has guided the NBR to improve the banking law and regulation; improve the supervision of banking institutions through offsite reporting forms and analysis; to train bank examiners to better understand international bank supervisory practices; and to provide standards that support the continued development of the Romanian financial system. As an outcome of USAID and Barents work, several problem institutions were closed and resolved during the course of the technical assistance. Foreign banks and investors show increased interest in the Romanian market which is demonstrated by a larger number of foreign banks as well as more foreign capitalization. The NBR bank supervisors have improved the lines of communication with the banking community that has fostered important dialogue on the development of the system as well as the processes to monitor the system.

The National Bank of Romania continues its efforts to improve bank supervision. This is a dynamic process which continually evolves, not only anticipating future market demands but also responding to existing issues in the present environment. As providers of this five-year, multi-stepped technical assistance program, USAID and Barents Group present this Final Report. The contents of this document provide the discussion and results of the significant positive steps the National Bank of Romania has made in its effort to implement international bank supervision standards.

Our technical assistance program provided the National Bank of Romania with several key tools to progress toward a market-oriented economy. We were instrumental in guiding our counterparts in the development and initial implementation stages of six bank regulatory manuals and assessment tools. Through these improved processes, Romania has an improved and more proactive bank regulatory function. This has allowed for expanded financial intermediation as well as the introduction of more sophisticated banking products and services.

The development of the NBR's bank supervision function has proven a key factor in the development of Romania's economy. USAID and Barents Group's efforts in delivering technical assistance to provide guidance on the improvement of standards for bank supervision, development of systems to detect problem banks as well as their resolution and banker outreach programs have all contributed to improved financial system intermediation. The system in 2002 reflects this work through increased foreign bank presence, a banking system showing significant improvement in levels of capitalization and stability, significantly higher levels of foreign investment throughout all sectors and improved country-specific economic indicators.

---

**TABLE OF CONTENTS**

<u>#</u>	<u>Title</u>
1	History of Banking Supervision in Romania
2	Banking Industry Development in Romania
3	Financial/Economic/Legal Highlights
4	Bank Supervision Reform in Romania – Phases I and II
5	Impediments to Reform: 1997 – 1999
6	The Bank Supervision Reform Process Improves: 1999 – 2002
7	Overall Program Objectives – Phase III
8	Project Team Structure
9	Significant Accomplishments: 1997 – 2002 <i>A Core Principles Assessment Analysis</i> <i>--Project Deliverables</i>
10	Detailed Description of the Work Accomplished Under the Contract Task Order with Tangible Results
11	Issues Pending
12	Linkages with Other Donor Programs and the International Community
13	Training Accomplished – U.S. Study Tours/Internships
14	Financial Data Trends
15	Prior Final Reports --- NIS I-01-99-00001-00 --- EPE-I-00-95-00048-00, Task Order No. 14
16	Attachments

---

**1. History of Banking Supervision in Romania**

Romania's emergence as an independent nation has been impacted by many of the same issues faced in other former Eastern bloc countries. The transition to a market-based economy has been slow and difficult. One of the reasons attributed to this less than rapid transition has been the lack of trust in the banking system which prevented a proper level of financial intermediation to support market growth. Lack of transparency in the banking system allowed for financial abuse and a general distrust toward the banks and their banking practices. Household funds remained in the hands of individuals rather than entering the system through which they could be used for market development.

The National Bank of Romania has been in existence since the early 1900's but functioned as a conduit for government directed credits. There were seven banks in the system at the time of independence. Those were Banca Agricola, Bancoop, Romanian Development Bank, Bancorex, Exim Bank, CEC, and Banca Comercialna Romana. Each of these was directed toward a specific area of economic operation.

After the revolution in December 1989, there was little immediate change in the system. Only in 1996, with the election of a reform government was more western movement encouraged. Many new banks were licensed, but economic scandals were a daily event with the closure of Dacia Felix and other similar problem banks. As problems were addressed and the NBR gained a more solid foundation through the *Law on the Status of the National Bank of Romania* and the *Law on Banks*, a true supervision function developed. The *Law on Banks* gave the NBR broad authorities to license and supervise banks and to promulgate regulations and required corrective actions by the banks. USAID's technical assistance program was designed with the objective to facilitate the change necessary to allow the NBR to be responsive to the changing market conditions and to supervise the banking system in a more proactive, prudential way.

---

## 2. Banking Industry Development in Romania

At the beginning of our technical assistance program in 1997, the Romanian banking system totaled 33 banks; seven state-owned banks, and 26 private or semi-private banks. There were ten branches of foreign banks in the system. Total assets in the system represented \$8.198 billion while total capital totaled \$101 million. Despite the growth in private banks, the relatively weak state-owned banks continued to dominate the banking sector accounting for over 80% of commercial loans in the system. The State Savings Bank accounted for about 45% of total household deposits.

### *In comparison:*

As of year-end 2001, the banking system contained 33 banks; three state-owned banks, and 30 private or semi-private banks. There were eight branches of foreign banks in the system. One indicator showing improved confidence in the system is the level of total assets in the system \$9.315 billion and total capital of \$727 million. We note the most significant change in the system, that being the decline of problem loans/total loans from 56.5% in 1997 to 4.7% in 2001. The NBR's aggressive stance in closing problem banks is reflected in this significant decline.

The Romanian banking sector has strengthened in comparison with its condition at the end of 1997. Significant changes brought by the new banking and bank bankruptcy laws put into force in 1998 have gradually brought about changes in the banking community. However, the need for supervision and restructuring assistance is greater than ever before. Only through the enforcement of the new laws and regulations may the National Bank of Romania (NBR) effectively create changes in the banking system. The NBR supervision department is developing a cooperative effort toward supervision. Cooperative in that the supervisors and the bankers are working together to strengthen the system. It is noted that a strong financial system does not develop overnight. The changes are frequently complicated by economic, political and social hardships.

While stability of the Romanian economy as a whole is desirable, there is a price to pay in the banking system. The NBR supervision department is looking ahead to the time when banks will be purchasing fewer Treasury Bills and will be forced to make more investments in the private sector through direct investment and lending. The bank supervision department has begun to anticipate this change in the banking system and is developing risk-based supervisory tools as well as a comprehensive early warning system to detect potential problems.

### **3. Financial/Economic/Legal Highlights**

The period of the project from May 1999 until July 2000 was a time of significant change in the economy of Romania. The European Union approved the start of negotiations with the country of Romania for accession into the group of European states. The Governor of the National Bank of Romania became Prime Minister. The Government of Romania met all of the requirements to meet the IMF accord and money was transferred to the National Bank of Romania under this agreement. Inflation declined significantly from the high of 150 in 1997 to YE 1999 of 45%. Romania met all of its debt obligations, external and internal.

Two majority state owned banks were privatized – Romanian Development Bank and Banc Post. A third majority state owned bank, Bancorex, was resolved through merger with Romanian Commercial Bank. The privatization of two-majority state owned banks – Romanian Commercial Bank and Banca Agricola commenced and the commercial bank system improved significantly during the period under review.

The National Bank of Romania was restructured during 1999, with important changes in supervision. After the enactment of the laws on banking, bank bankruptcy, and the National Bank of Romania, improvement was made in bank regulation with strengthening in licensing and capital adequacy and provisioning. One of the most important changes was in the development of an offsite supervision program, which made a major improvement in the supervision of banks by the National Bank of Romania bank supervision department.

None of the above would have been possible without the superior effort of Governors Mugur Isarescu and Emil Ghizari; Vice Governor Mihai Bogza; Mr. Nicolae Cinteza – Director of Supervision; Mr. Adrian Cosmescu – Deputy Director of Supervision; and the section chiefs of the Bank Supervision department, Mrs. Elena Georgescu; Mrs. Lucretia Paunescu; Mr. Viorel Mehedintu; and most specifically Mrs. Rodica Popa, Chief of the Analytic Section of the Bank Supervision Department who developed the Early Warning System.

Challenges ahead include the development of a regulation and supervision program for credit cooperatives, the further improvement of the commercial banking sector, and the continued improvement of skills and experience in the bank supervision department.

### **4. Bank Supervision Reform in Romania – Phases I and II**

The development of the bank supervision function in the National Bank of Romania was identified as a priority in 1997 under the ENI Bureau's Strategic objective 1.4, "A competitive, private sector that is more responsive to the needs of a market-oriented economy". USAID's specific initial objectives were to: 1) promote the institutional development of the Bank Supervision Department in the National Bank of Romania (NBR); 2) to strengthen the capacity of the NBR Bank Supervision Department to regulate and monitor the banking system and individual banks; and, 3) to assist the NBR Bank Supervision Department in establishing supervisory policies and procedures to deal with problem banks.

Barents Group, a division of KPMG Consulting, Inc., and USAID have enjoyed a partnership in bank supervision development with the NBR Bank Supervision Department management team. During the first phase of the project (1997-1999), methodologies and analyses were developed which incorporated international bank regulatory practice. These tools for bank supervision allowed the NBR to better understand the challenges faced by the post-Communist banking system. However, during this period, the counterpart responsiveness was low which impacted the advisors' ability to enhance change in the bank supervisory processes.

USAID and Barents Group started technical assistance to the National Bank of Romania in 1997. In total, three Task Orders have been awarded to Barents Group of KPMG Consulting, Inc. (Barents) to provide technical guidance to the bank supervision department. There has been an ongoing presence using a combination of resident advisors and short-term technical experts since the inception of the project.

Our impact and overall success in helping to strengthen the supervision function of the National Bank, although difficult to achieve in the initial years, has proven to be substantial.

#### **Phase I – Project Highlights**

In Phase I of the project the initial draft of the bank examination manual was turned over to the supervision department for review and adoption. Assistance was given to the Monetary Policy Department for the monitoring and evaluation of the Bancorex and Banca Agricola assistance programs. The assistance included the impact of these programs on the country's Monetary Policy efforts. Two bank supervisors were sent to the United States for training at the Federal Reserve class of Financial Institution Analysis and for an onsite exercise in cooperation with the Federal Deposit Insurance Corporation (FDIC). Assistance was given to the NBR team, which was negotiating with the bankruptcy courts on the liquidation of Dacia Felix and Credit Bank. At the request of some commercial banks, a bank ratio profile was developed so that they could monitor their own activities. During this Phase, Vice Governor Croitoru steadfastly refused to meet with advisors, even those of the World Bank and IMF. While the head of bank supervision gave general approval to the receipt of assistance, no real relationship between the advisors and the management of the department developed. No advisors were allowed to go onsite with examiners. This state of affairs made it necessary for the advisors to work with the Statistics and Monetary Policy Departments, and directly with the Governor. The advisors provided important guidance at a time, in retrospect, which was critical to the improvement of the Romanian banking system.

#### **Phase II – Project Highlights**

In Phase II, after the appointment of Vice Governor Bogza, assistance to the Bank Supervision Department and for the supervision of problem banks increased. Kathryn Woolford, Resident Advisor, served as the Bank Liquidation Advisor for Bancorex. This position was approved by the local USAID Mission Director, Peter Lapera. As Phase II began, the problems in the financial system reached a critical level. Not only was the NBR forced to deal with the problems of Bancorex, but it also had an extremely large external debt



service requirement. We can conclude from this situation that the primary focus of Phase II was to help the Supervision Department better deal with its problem institutions and the wholesale restructure of the banking system.

As time passed, assistance continued on the problem bank issues but it also evolved into the development of offsite supervision capabilities. The supervision department focused on the efficacy of offsite surveillance in spotting problem areas as they arose rather than waiting for another massive insult to the system as was the case with Bancorex. Focus was also paid to the ongoing monitoring of Banca Agricola as it entered the privatization process.

Other NBR examiners went to the United States for training and participation in bank examinations, but the NBR continued to deny the advisors the right of onsite bank access. However, during this time the advisors developed working relationships with several community bankers. These relationships improved the impact of assistance to the Supervision Department. At first, relationships were developed through the sharing of translations of all bank related laws and regulations, which proved generally beneficial to the system and to the international community as well.

## **5. Impediments to Reform: 1997 - 1999**

The condition of the Romanian financial system in 1997 was weak. It was dominated by large state-controlled ailing institutions that were managed by unskilled individuals in positions of trust, very large portfolios of overdue loans, low capital, and weak financial indicators. The public trust in financial institutions was very low and the penetration of financial services into the population was minimal. The banks were not fulfilling their role of financial intermediation. The NBR did not have an established rapport with the banking system with regard to prudential supervision and oversight.

From the beginning of the project in 1997 until the selection of a new supervision management team in 1999, there were many difficulties in working with the supervision department. The vice governor in charge of supervision until year end 1999, was also a member of the board of directors of one of the largely state owned banks evidencing the lack of independence of the supervisors. The largest bank in the system, Bancorex (Romanian Bank for Foreign Trade), a state owned bank, dominated the financial system. Some foreign banks were entering the market, but licensing was restrictive and obtaining a license was a labor of many months. The state owned banks were burdened with state guaranteed directed credits which were not income producing. In 1997, two of these banks – Banca Agricola and Bancorex were the recipients of a \$1.0 billion bail out, but this was too little and too late. The monetization of the bonds given to Bancorex in year-end 1997 for the fulfillment of the state guarantee on loans for petroleum imports for heating oil resulted in inflation of about 150%.

In December of 1998, the Romanian parliament selected a new board of directors for the NBR. Mugur Isaescu remained as governor and Emil Gizari remained as first Vice Governor

but Mr. Soare (who was also president of Bancorex) and Mr. Croitoru (member of board of directors of BancCoop) were replaced as Vice Governors by Mr. Mihai Bogza and Mr. Cristi Popa, an experienced banker and economist. During 1999, while working on the dissolution of Bancorex, Vice Governor Bogza created an extraordinary bank supervision managerial team composed of Director of Supervision Nicolae Cinteza, Deputy Director of Supervision Adrian Cosmescu, and Director of Regulation and Licensing Petre Tulin. This team of individuals took an assertive stance with several key issues impacting the solvency of the banking system, which contributed to an overall improved level of market discipline. The improved level of checks and balances in the system allowed for improved foreign investment and the entry of foreign banks into the Romanian financial markets.

## **6. The Bank Supervision Reform Process Improves: 1999 - 2002**

When the new management team for Supervision and Regulation was put in place in 1999, there was a unique meeting of resources, capabilities, management, and commitment. This led to a substantially increased level of supervision of financial institutions which resulted in:

- resolution of weak institutions through merger, liquidation, and acquisition;
- international standard financial institution monitoring capability;
- a financial system that rapidly increased its household deposits and lending to non-bank and non-government entities;
- a regulatory environment that meets requirements of international standards and shortly with the European Union *acquis*; and
- a business environment that is increasingly attracting the leaders in of the international financial institutions market.

The environment of change brought about by the NBR's efforts is complimented by Romania's efforts to enter both the European Union and NATO and to comply with the guidelines established by the World Bank and the International Monetary Fund. This environment along with the example of the supervision at the NBR has brought great attention to the other supervisors in the market causing a great acceleration in their plans to improve and become compliant with international standards. A memorandum of cooperation was celebrated with the Romanian supervisors of the insurance and securities sector. This enabled and encouraged sharing of information and cooperative investigations. This can be considered a significant leap forward for openness and transparency as well as modern standards.

The NBR has completely changed its approach to public interaction with a whole-hearted commitment to openness and transparency during the project years. Barents Group assisted with the development of public information documents, a web site, and a number of public outreach programs. The public profile today includes frequent, if not daily, communications by members of the NBR's senior management and Public Relations Department with all forms of the media. The education of the public on the banking system and the role of the NBR is constantly advanced by print publications, seminars (both NBR sponsored and jointly

with banks), and publications distributed through the NBR website.

## **7. Overall Program Objectives – Phase III**

The tangible results and benchmarks contained in the Task Order are all designed to meet ENI Bureau Strategic Objective 1.4 as well as specified goals.

*ENI BUREAU Strategic Objective 1.4 - A competitive, private and sound financial sector responsive to the needs of a market oriented economy*

USAID developed the following Intermediate Results Indicators intended to measure achievement of the above-stated Strategic Objective:

- Private bank capital as a percentage of total capital
- Non-Performing Loans as a % of total bank loans
- Return on equity
- Return on assets
- Real growth of credit to the non-financial private sector
- Credit to the non-financial private sector as a % of total credit
- Interest spread between lending and deposit rates
- Real growth of household deposits

### *Specific Task Order Objectives*

#### **Contract End Report**

The appendices of this contract end report are structured to highlight and expand on the eleven specific Task Order Objectives, which were program specific and intended to positively impact the SO level indicators. Each Task Order Objective will be elaborated through a short narrative concerning the development of the objective throughout the performance of the contract. Documentation will be presented, which supports the achievement of each objective will follow the narrative and demonstrate the role, which the USAID advisors have played in ensuring their achievement.

The referenced contract period has been one of remarkable change in the supervisory process of the National Bank of Romania. Structural changes within the central bank as well as changes to the board of directors have created a paradigm shift in supervisory treatments. When confronted with problem financial institutions, difficult economic conditions, political instability, and corrupt banking practices, only strong political will can prevail in bringing about systemic change.

The executive management of the National Bank of Romania has ably demonstrated the will to overcome the difficulties encountered in the past. Armed with the banking laws enacted in 1998 and the subsequently developed Norms and Regulations, the NBR has boldly stepped to the forefront in creating a transparent banking system in Romania. Bowing to the pressure of the multi-laterals, the Government of Romania through the expertise of the NBR resolved the failure of the country's largest bank "Bancorex" by transferring the non-performing assets to

the Agency for the Recovery of Banking Assets and merging the residue with the strong “Romanian Commercial Bank”. The entire transaction was performed in a manner, which maintained consumer confidence and did not diminish the country’s ability to service its external debt.

As discussed in the analysis of performance indicators, consumer deposit levels have remained relatively stable since the beginning of this program period. Other issues such as the lack of availability of loans for individuals and small and medium enterprises continue to delay the growth of the economy. The shock of the failure of the nation’s largest bank coupled with the subsequent bankruptcy of three other small private financial institutions could have created a crippling systemic crisis, without the careful planning and steady calming influence of the NBR.

Both 1999 and 2000 were years of hard choices for the Romanian government. During this time, the National Bank of Romania was often the most visible arm of the government in making the difficult decisions. The NBR acted with firm decisiveness and flexibility as conditions warranted. What follows below and that which is included in greater detail in the Attachments is descriptions of the role that the USAID funded advisory team has played in supporting the achievements of the NBR supervision team.

**8. Project Team Structure**

Technical Assistance commenced on April 1, 1999. The technical assistance program was originally designed for two resident advisors (problem bank and bank supervision) supported by short-term experts, and the structure remained unchanged for Phase II. The advisory team remained the same until May 1999 when the bank supervision advisor offered his resignation as a resident after two years in country. The replacement bank supervision resident was put into place at the end of September 1999.

The Team Structure is as follows:

Mr. John F. Ewald, III	Bank Supervision Resident Advisor (1998-2002)
Ms. Kathryn Woolford	Bank Supervision Resident Advisor (1997-2001)
Mr. Harold Poppa	Bank Supervision Resident Advisor (1997-1999)
Ms. Lori Bittner (Yerzyk)	Project Manager – Barents Headquarters Office
Mr. Alain Abejdid	Bank Supervision Expert
Ms. Barbara Baldwin	Bank Supervision Expert
Ms. Susan Ballinger	Capital Markets Expert
Mr. Craig Benson	Bank Regulatory Attorney
Mr. Douglas Carpenter	Banking Analyst
Mr. Robert C. Clarke	Bank Regulatory Expert
Mr. Jay S. Doeden	Bank Supervision Expert
Mr. James J. Hightower	Bank Supervision Expert
Mr. Dan Luczak	Bank Supervision Training Expert
Mr. Claude Raworth	Bank Supervision Training Expert
Mr. Ken Walker	Bank Supervision Expert
Mr. Alan Whitney	Regulatory Communications Expert

## 9. Significant Accomplishments: 1997 – 2002

### *A Core Principles Assessment*

Over the period of our assistance, we provided assistance in many areas and substantial achievements were made by the NBR Supervision Department. Most importantly, the NBR was able to enhance its overall supervision of the banking sector. This was done through development of formal policies, processes, and procedures using international best practices providing for the ongoing supervision of financial institutions through onsite and offsite examinations. Supervisors were provided substantial training opportunities both in-country and abroad and encouraged to share this knowledge to improve practices of the NBR.

As a measure of performance, the National Bank of Romania Bank Supervision Department has periodically conducted self-assessments under the *Core Principles for Effective Bank Supervision* promulgated by the Basel Committee on Banking Supervision. These principles establish 25 indicators which governmental bank supervision functions throughout the world use as the foundation for effective supervision. In assessing the progress of the NBR Bank Supervision Department, it is useful to determine how the function has progressed over the past five years of technical assistance.

As a means of assessing progress, we will measure the deliverables completed using the “Core Principles Methodology” issued by the Basel Committee, October 1999 as the assessment tool. Please note that it is not uncommon in countries with advanced financial and economic systems to have compliance exceptions with these international regulatory standards.

*An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place. (Principle 1)*

Our program has focused on the development of the necessary infrastructure that will allow the NBR to effectively supervise the Romanian banking system. The following types of institutions conduct banking business: commercial banks including branches of foreign banks, credit cooperatives (including popular banks), and credit unions. The *Law on Banks* gives the NBR the power to license, supervise, impose remedial measures, and resolve commercial banks, Romanian legal entities, and to some extent branches of foreign banks. Emergency Ordinance 7/2000 gives the NBR the responsibility to license, supervise, and regulate the credit cooperatives. With the addition of the supervision of the credit cooperatives, approximately 98% of banking business will be supervised by the NBR.

*The permissible activities of institutions that are licensed and subject to supervision as bank must be clearly defined, and the use of the word “bank” in names should be controlled as far as possible (Principle 2)*

Through our work on the legal framework, we have guided the NBR on the establishment of a legal framework that supports the definition of banking and banking activities. The *Law on Banks* states, “No entity, without the National Bank of Romania’s authorization, is allowed to use the name “bank” or its derivatives, in relation to an operation, a product or service, unless this use is established or recognized by law or by an international agreement, or unless, from the context the work “bank” is used results without any doubt that it does not refer to banking.

*The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organisation’s ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained. (Principle 3)*

The Bank Supervision Department has implemented a licensing process that provides for the analysis of the proposed institution in light of its ownership structure, investigation of the proposed officers and directors and financial projections. This process is supported by Chapter III of the *Law on Banks* that lists the requirements of a bank license application. In addition, the Law states the conditions under which an application may be rejected.

*Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties. (Principle 4)*

The NBR licensing process requires prior notification of proposed changes that would result in a change of ownership. The Bank Supervision Department plays a review role in this process and has the right to reject these proposals. The *Law on Banks*, Article 3, Letter (i), defines a significant shareholder as a legal entity or physical person who holds at least 5% of a bank’s equity. The law also requires the prior consent of the NBR for any increase of share interest above 5%.

*Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision. (Principle 5)*

The *Law on Banks*, Articles 48 and 49, provides for the monitoring of such activities. The

NBR has created prohibitions that establish strict guidelines for such activities by banks.

*Banking supervisors must set minimum capital adequacy requirements for banks that reflect the risks that the bank undertakes, and must define the components of capital, bearing in mind its ability to absorb losses. For internationally active banks, these requirements must not be less than those established in the Basel Capital Accord. (Principle 6)*

The legal and regulatory framework for the establishment and maintenance of capital adequacy meets the minimum guidelines established by the Core Principles up to the point in which the Core Principles apply to individual, unconsolidated banks. Currently there is no provision for consolidation of financial statements. The capital requirements do not exceed Basel requirement although the Romanian financial system operates within a hyper-inflationary economy with a relatively high degree of risk. The offsite surveillance system of the NBR closely monitors the capital position of all banks within the Romanian banking system and the NBR, in its progressive enforcement program is authorized to take action should capital in a bank fall below required levels. The NBR has also provided to all commercial banks a Progressive Enforcement Decision Matrix which details the actions that the NBR will take in the event that a bank allows its capital to decline below minimum required levels.

*An essential part of any supervisory system is the independent evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolios. (Principle 7)*

Banks are required to develop and maintain lending and investment policies as a part of their operations documentation. The NBR BSD examines these policies for appropriateness during onsite activities. Grading and classification will be required to be performed on a monthly basis began in October 2000. Historically, onsite review of policies and procedures compliance has been minimal, however, the NBR BSD has developed a standardized examination report which addresses evaluation of policies and procedures. The NBR has significant progress yet to achieve in this area.

*Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and reserves. (Principle 8)*

Regulation 2/2000 became effective on October 1, 2000. The impact of this regulation increased the frequency and reporting concerning loan evaluations and provisions. This area requires further development in the area of onsite bank examination practices with regard to loan portfolio review, assessment of the adequacy of the loan loss provisions and how this is to be assessed under International Accounting Standards.



*Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers. (Principle 9)*

The *Law on Banks* covers exposure limits in line with the Core Principles. Reporting requirements are sufficient to reveal large exposures. Onsite supervision activities follow up and verify the adequacy of reporting.

*In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks. (Principle 10)*

Regulation 2/2000 requires that adequate provisions be made in the case of past due or classifiable loans involving related parties. NBR reporting requirements are sufficient to reveal connected lending.

*Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves against such risks. (Principle 11)*

For the purposes of evaluating country risk, the NBR regulation differentiates between countries which are members of the OECD and non-members following the guidelines established by the European Commissions Banking Directives. It is anticipated that when the BIS put the new capital adequacy measures in place, that Romanian regulations will be modified to use external rating sources for the application of country risk indicators. However, very little funds are loaned externally, which is a factor to be taken into consideration when evaluating the compliance with the need to identify, monitor, and control country risk.

*Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have powers to impose specific limits and /or a specific capital charge on market risk exposures, if warranted. (Principle 12)*

The NBR has not reached compliance with this principle. Specifically:

- Banking laws and regulations approach market risk from the standpoint of setting limitations rather than assessing policies and procedures.
- There is no mechanism set up for creating capital charges for market risk exposures

although market risk is limited to FX, interest, and credit risks due to immaturity of the market.

- There are no rules set up by the NBR Bank Supervision Department concerning IT capabilities for banks. No IT examination policies/procedures have been developed to date.
- Only through onsite examinations are supervisors able to determine if transactions are booked in a timely manner. There is no offsite reporting mechanism that captures this data.
- Until very recently the bank supervision department only performed compliance or transactional supervision exercises in onsite examinations. Practices of the evaluation of compliance with bank's own policies and procedures and with adequate internal controls remain in the basic stage.
- The NBR has depended on bank audit reports for information concerning bank's understanding and application of adequate risk management procedures rather than developing appropriate procedures for the bank examination process.
- The supervision department does not have sufficient depth to evaluate stress-testing scenarios, however, the Romanian financial market is relatively immature and does not require sophisticated testing for risks.
- The NBR is developing significant expertise in the field with specialist training.

*Banking supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management oversight) to identify, measure, monitor and control all other material risks and, where appropriate, to hold capital against these risks. (Principle 13)*

The *Law on Banks* does require the creation of the management infrastructure for management of the risks of banking but not on a specific level denoting the fact that the banking market has not evolved to the point that the bankers are managing on a risk and portfolio basis. There are no specific requirements for the separations and evaluation of isolated risks with all the attendant measures. The NBR has not issued standards or issued guidelines. The offsite analysis group generates ratios and information that monitors liquidity and other quantitative standards but the verification of the risk processes is not possible as they are not in place. The supervisor has the authority to require banks to hold capital against risks but has not yet issued standards beyond those delineated in the Basle standards.

There has not been an effort to advocate the public release by banking institutions of their accounts nor has there been an effort to include the public release of a statement on their risk management policies and procedures. While there is considerable onsite and offsite data gathering and analysis is currently conducted providing the NBR with sufficient information, there is no assessment of management understanding or activities regarding the issues involved. While some institutions use rate and exchange change scenarios to conduct a type of "stress test", the practice is not part of the regulations nor is it widespread. Consequently, the modification of a bank's asset/liability policy to reflect the results of a stress test is not evidenced.

*Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations. (Principle 14)*

While both the *Law on Banks* and the *Law on Credit Cooperatives* both treat the delegation of authority and responsibility and audit, they do not go further into the routines that contribute to a control environment (i.e. separation of duties, accounting, reconciliation, safeguarding of assets, nor compliance).

Only some of the corporate governance principles are covered in the two laws and there is no overriding call to ensure that there "is effective control over every aspect of risk management". Article 3.h of the *Law on Banks* defines "... bank managers – entities, of which at least two, according to the incorporation documents and/or the decision of the bank's statutory bodies, are authorized to manage and co-ordinate the daily operations of the bank; they are authorized to engage the bank's responsibility,".

Each bank manager is approved by the NBR, a process which includes an assessment of the adequacy of his/her skills given the position and nature of the bank. Note that per the *Law on Banks* the NBR retains the ability to change the management (individually or group) of a bank and Article 25 gives the NBR the ability to establish other regulations, and ethical and professional regulations regarding the quality and powers of the bank staff.

The regime of auditors (i.e. internal, external, and statutory) describes measures that address all the audit measures above with the exception that there is no regulatory requirement to include "...experienced non-executive directors." on the Audit Committee.

There are considerable differences between the above principle and the framework described in the principle. The NBR must continue to develop its corporate governance guidelines, establishing criteria for the banking sector. These guidelines must be enforced through inclusion in the onsite bank examination process.

*Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements. (Principle 15)*

Article 54.f of the *Law on Banks* requires that "Each bank shall draw up and keep at its head office documents and ledgers in Romanian, consisting of the following: ... own regulations regarding its operations, as well as all their amendments;". There is no internal regulation

that requires a separate review and assessment of the policies and procedures beyond that provided in the onsite inspection. "Strict Know-Your-Customer rules" are not a part of the regulations of the NBR and there is no call to a high ethical standard.

*An effective banking supervisory system should consist of some form of both onsite and offsite supervision. (Principle 16)*

The Financial Institution Supervision Department of the NBR is responsible for all banks, branches, subsidiaries, and cooperatives and operates under its own law 101/1998 and within the *Law on Banks*. It reports to a Supervision Committee composed of directors of the NBR. The department has four sections: three for onsite supervision and one, called Analysis, which has responsibility for offsite analysis. The department is responsible for assessing compliance to regulation, risk control, corporate governance, report verification, and assessment of the true condition of the bank. The NBR is currently in an annual examination cycle.

The Analysis (offsite supervision) maintains a broad database of information drawn from the reports submitted by the institutions. Monthly analysis is conducted on all institutions using an assessment methodology based on the CAMELS system. The results of the analysis are distributed monthly to the management of the NBR and are used in ongoing supervision. The data also provides a vehicle for trend analysis of each institution and for the banking system as a whole. The offsite data is used to assess compliance with regulatory requirements (liquidity, capital, etc.) and is provided to the onsite area responsible for each institution. The Supervisor is granted, by the *Law on Banks*, the power to request any documents that they deem necessary to fulfill their role. Banking information confidentiality is provided by the *Law on Banks* and is restrictive to an extent that dissemination of information to other agencies who require such information is not allowed. The onsite examination team receive copies of the internal and external auditor's reports but are using only their own work to fulfill their responsibilities. Recent legislation regarding the accounting profession brings the possibility but until the effects are fully developed (i.e. bringing a more professional approach) the full benefit will not be available.

*Banking supervisors must have regular contact with bank management and a thorough understanding of the institution's operations. (Principle 17)*

The annual bank examinations provide the main opportunity for information like strategy or corporate structure to be analyzed and discussed. The monthly reporting and the offsite CAMELS style analysis provide the monthly capability to assess against market, tier, and prudential standard ratios. The Seniors in the supervisions department receive individual reports on a monthly basis of the information developed by the Analysis department and contact the banks for any questions. The treasury bills, foreign exchange, and interbank markets are analyzed daily and unusual movements or disturbing trends result in a contact with the subject bank's senior management by the supervision team. There is no regulatory

requirement for the banks to advise the NBR of substantive or material adverse changes. There is a regulatory requirement for the banks to advise the NBR of breaches of law or prudential regulation. In the licensing process and in the ongoing assessment of banks, the quality of management is assessed. The NBR retains the legal ability to mandate the change of one or all managers of a bank.

*Banking supervisors must have a means of collecting, reviewing and analyzing prudential reports and statistical returns from banks on a solo and consolidated basis. (Principle 18)*

The *Law on Banks* empowers the NBR to define, request, and collect information on the banking system. The system is one in development and as such only a few institutions have subsidiaries that would be consolidated. The *Law on Banks* also empowers the NBR to sanction institutions for providing tardy or inaccurate data (see the decision matrix in the Financial Institutions Rehabilitation and Restructuring Manual). The NBR requests a full range of standard bank regulatory reports including but not limited to those mention above with the exception of market risk (now under development). The NBR has not yet issued norms that will govern consolidated reporting. The NBR does not yet have the ability to request and receive information from companies that are related to financial institutions, where the supervisor believes that it is material to the financial situation of the bank or the assessment of the risks of the bank. As related above, the supervisor has an analytical framework (the CAMELS type analysis) for ongoing monitoring and performance measurement, which is also used to support onsite examination planning and which is supported by IT infrastructure. All data is captured at set dates across all institutions (i.e. month ends or quarter ends) that are appropriate to the type of risk being measured.

The NBR is collecting a great deal of information and the supervision department has in place a thoroughly adequate analysis methodology that provides information sufficient for proper risk analysis. There is a lack of consolidation reporting, related non-financial institution reporting, and a report for market risk has not yet been issued.

*Banking supervisors must have a means of independent validation of supervisory information either through onsite examinations or use of external auditors. (Principle 19)*

As above, the NBR maintains a team of examiners in three sections dedicated to individual banks for consistency and to build knowledge of the institutions. The audit companies are currently not up to international standards. The parliament passed legislation to augment their professional standards. As such, the NBR does not usually rely on or use these companies. The NBR has its own examination manual developed to an international standard with the assistance of outside experts. The culmination of each examination is a meeting with the bank's management and the management of the supervision department. Given the above, the supervision department obtains a copy of any examination results but does not rely on it for supervision goals. The supervision department has full access, per the *Law on Banks*, to the records, staff, management, and board members of any financial institution. There are only occasional meetings between the supervision department and the external

auditing firms. The NBR has full access, staff, expertise, and other resources necessary to accomplish its responsibilities.

*An essential element of banking supervision is the ability of the supervisors to supervise the banking group on a consolidated basis. (Principle 20)*

Consolidated supervision as a concept and a practice has not yet been implemented in Romania. A mitigating factor is that there is no non-financial institution (i.e. no entities not supervised by the NBR) owned by banks in Romania. As part of the onsite examination, the organizational structure of every bank is documented and information about the activities of those units is gathered. There is no ability of the NBR to supervise non-banking institutions. Within Romania, there are other supervisory organizations for brokers and funds (i.e. the CNVM) and for insurance (the insurance commission). There is currently no formalized relationship or agreement with these entities. The regulations governing capital adequacy strictly follow the Basel accords on an institutional basis only. NBR regulations regarding large exposure and lending limits do account for related lending and, in so doing, account for lending to but not through subsidiaries. The NBR has executed some agreements with their international counterparts but these largely these agreements have only been put in place recently. The regulations and approach of the NBR does not adequately address the concept of managing risk on a consolidated basis and considerable regulation must be put in place for this principle to be addressed adequately.

*Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition. (Principle 21)*

The *Law on Banks* and the *Law on Credit Cooperatives* devote considerable verbiage to the maintenance of adequate records, the recording of accounting entries, and the accounting policies to be used in the conduct of a banks business. The chart of accounts is the responsibility of the Ministry of Finance and is published. The accounting system in Romania is based on the Napoleonic system and is steadily be evolved toward a system based on IAS and in conformity with EU guidelines. International Accounting Standards will be required for only the nine largest commercial banks beginning on January 3, 2003. This implementation will run for 12 months concurrently with Romanian accounting standards in these banks.

Statutory reporting differs from IAS considerably and is a main concern. This having been said the accounting system and policies in Romania permit the NBR to be satisfied that adequate accounting records are being maintained, the policies and practices are consistent, and the results of the bank are published annually. It is in the "true and fair view of the financial condition of the bank and the profitability of its business" that gives the regulators

concern. There is also an affect of the tax regulations of the Ministry of Finance not being in synch with the best practices and policies.

*Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in any other way. In extreme circumstances, this should include the ability to revoke the banking license or recommend its revocation. (Principle 22)*

The *Law on Banks* provides broad powers to prescribe and enforce. Please refer to the board approved Decision Matrix and the supporting manual "Financial Institution Rehabilitation and Resolution".

These principles are adequately addressed by the written policies of the NBR. Some effort must be undertaken to refine the Bankruptcy Law and the Law on Credit Cooperatives, to smooth the process. There is a commission already established for the treatment of the bankruptcy laws for companies and for banks.

*Banking supervisors must practice global consolidated supervision over their internationally active banking organizations, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organizations worldwide, primarily at their foreign branches, joint ventures and subsidiaries. (Principle 23)*

The NBR placed a regime of agreements in practice with other countries supervisors following the international standards described in BIS publications. The Romanian banking system has a very limited presence overseas and such offices are constrained to the very largest institutions. The NBR's policies and procedures do not currently address such matters. Only with a full compliment of accords with foreign banking supervisors, a comprehensive set of policies, and amendments to regulations will the concepts in this policy be met. Such an effort is currently underway. It must be continued and supported.

*A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily host country supervisory authorities. (Principle 24)*

The NBR is now beginning to put in place a regime of agreements with other countries supervisors following the international standards described in BIS publications. The Romanian banking system has a very limited presence overseas and such offices are constrained to the very largest institutions. The NBR's policies and procedures do not currently address such matters. Only with a full compliment of accords with foreign banking supervisors, a comprehensive set of policies, and amendments to regulations will the concepts in this policy be met. Such an effort is currently underway. It must be continued and supported.

*Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision. (Principle 25)*

Local operations of foreign banks are subject to the same regime of control and review as that for the domestic institutions. In the absence of the agreements with other countries supervisors, the context and approval to share information and conduct cross visits are not yet available. The licensing process does include the contact with the home country supervisor as a prerequisite for approval. Without a full set of international agreements addressing the requirements of these principles, true consolidated supervision cannot be achieved.

### **Project Deliverables – Presented According to the Basel Core Principles**

Project deliverables are prioritized according to the level of importance in achieving compliance under their applicable *Basel Core Principles Methodology*.

#### **Principle 1**

An integrated supervisory process was implemented at the NBR. The supervisory process uses a combination of examinations to monitor and assess the overall condition of the financial sector. NBR management assigned portfolio responsibilities to teams of examiners to help ensure that banks are monitored on an ongoing basis through a combination of comprehensive and targeted onsite examinations and offsite monitoring. A system was also implemented to provide enhanced supervision to problem institutions.

Our advisors provided guidance and input on the banking law and numerous regulations to ensure compliance with best practices and international standards. Our resident team as well as short-term technical and legal experts assisted NBR in drafting/enhancing laws and regulations. Assistance was provided to the NBR in the drafting of regulations/law on numerous topics including: capital adequacy, cooperative supervision, foreign exchange, derivatives, provisioning, bank licensing, money laundering, anti-terrorism, bank bankruptcy, and deposit insurance.

All banking laws and regulations were translated as part of our program and provided to the National Bank legal team to incorporate into a web-based reference source. USAID, the banking community and other donor projects also looked to our program as a resource for translated banking laws and regulations.

Core Principle Assessment and Supervisory Self Assessment were conducted and a method to periodically re-evaluate compliance was implemented. Our resident team worked with the NBR to perform an assessment of compliance with the *Basle Core Principles for Bank Supervision*. The methodology is utilized and updated on a periodic basis. The initial evaluation found satisfactory compliance and improvements in overall compliance has



continued. The evaluation methodology designed by our advisory team was unique in that it quantified the level of compliance for each Principle through a numerical system.

A protocol foundation for interagency/intergovernmental working relationships has been developed. The NBR and bank supervision play an integral role in the overall health of the financial sector of Romania. During our program, the advisors have worked closely with senior management officials to help to build ongoing communications with other agencies such as the Insurance Supervisory Agency and the Securities Commission. A draft Memorandum of Understanding was created whereby the NBR could enter into agreements for cooperation with others.

#### **Principle 16**

A CAMEL rating system was introduced. This system is utilized during the onsite and offsite examination process and used to rank banks by risk. The overall ratings help to determine examination schedules and supervisory actions.

A standardized Report of Examination format was introduced. A report format based on CAMEL ratings was created to allow for a more responsive communication of examination findings. Prior to the introduction of this template, examination reports of findings were overly voluminous and did not clearly outline concerns or areas needing attention. Additional refinement of the Report format will be an ongoing project for the NBR.

Bank Examination Procedures manuals were developed, tested and implemented which will serve as a resource for the NBR going forward. The following manuals have been created: Financial Institution Rehabilitation and Resolution Manual; Bank Examination Procedures Manual; Bank Examination Manual- Information Technology; and Bank Licensing Manual.

An Offsite Surveillance process was designed and introduced. An ongoing surveillance process was implemented and integrated into the overall supervisory process. Periodic written reports and financial analyses are generated on each bank and on the system as a whole.

An Early Warning System was developed to assist the NBR in identifying risk in institutions. An early warning ratio analysis system was implemented which is incorporated into both the onsite and offsite supervision of institutions. This allows the supervisory staff to identify trends in institutions prior to conducting onsite examinations and to take immediate action (e.g., liquidity problem in several banks with activities/ownership in Turkey; liquidity problems in banks and their insurance affiliates.)

Training and Study Tours for a large number of supervisors was designed and coordinated with planned U.S. regulatory agencies. The Board of Governors of the Federal Reserve Bank, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Agency and a number of United States banks were gracious in allowing Romanian supervisors to attend formal training seminars and to participate in onsite supervisory examinations with bank

regulators. The internships lasted from 1-5 weeks with most individuals in country for a three to four week period. These visits are attributed with helping the NBR supervisors to understand western supervisory methodologies, to implement risk management supervisory techniques, and to assist in the development of supervisory processes and a manual for all aspects of supervision. The internships provided the participants with tremendous intellectual capital and resources as well as contacts in the U.S. regulatory agencies that they are able to contact for questions or to discuss issues. Please see the attachments.

A Training Program and Policy has been presented to NBR management for full implementation. During our program, training has included seminars, studies abroad/internships, classroom sessions and one-on-one discussions. To enable the NBR to ensure that training of personnel remains a priority, we have drafted a policy outlining the minimum requirements for training and provided an outline detailing steps towards implementation of an Accreditation program for supervisors. The NBR will be challenged going forward with ensuring that knowledge gained from previous initiatives is shared and passed onto future new hires.

A Shareholders/Owners rating was introduced into the overall CAMEL bank rating system. Bank ownership concerns continued to plague NBR management during the period of assistance. In response NBR management expanded the rating system to grade the quality of bank shareholders through an assessment of their overall knowledge of the industry, capital wherewithal, and integrity. This rating is unique to Romania but viewed as very important in transitional economies given the questionable corporate governance practices and lack of fiduciary responsibility exhibited by many bankers.

A cadre of supervisors were identified and provided intensive training both in Romania and abroad in the supervision of *Trading and Treasury activities*. Three supervisors identified by NBR were provided specialty training to enable them to serve as experts in the above areas. These individuals traveled to the U.S. twice to participate in onsite examinations hosted by the Federal Reserve and to attend training seminars. In addition, Advisor Susan Ballinger spent several months in Romania providing on-the-job training in banks. At the conclusion of this contract, Ms. Ballinger returned to the NBR to provide specialized derivative products training in response to the new derivatives regulation enacted by the NBR on September 30, 2002. This training focused on various derivatives products currently in the Romanian markets as well as those that are on the market horizon. She worked with a team of approximately 15 individuals on these issues as well as the risk management aspects of derivatives in the Romanian banking system.

#### **Principle 17**

“Outreach Seminars” were organized by the NBR with guidance from our advisory team. Two “Outreach” seminars for bankers were coordinated. One titled Bank Directors Seminar where senior U.S. regulatory officials participated to discuss with Romanian bankers the importance and responsibility of their roles as management of banks. A second seminar was organized to enable NBR to present its new process for Early Warning analysis and

supervisory processes. Additionally a seminar was coordinated with other donors (Financial Services Volunteer Corps) to provide training to local judges and prosecutors. Additionally, our advisors provided training on credit analysis, loan workout and financial analysis to commercial bankers and to students at the Romanian Bankers Institute.

#### **Principles 18**

A Quarterly Supervision bulletin was designed and implemented by the NBR for distribution to the public. The bulletin was modeled from a similar publication produced by the National Bank of Poland. It provides at a summary level trends in the banking sector including statistics on total assets, credit, capital and earnings. Our advisory team produced the initial publications with input from the NBR and has now become a key document for public information and to promote transparency.

A format was designed to allow for a Monthly Statistical Analysis of supervisory effectiveness.

#### **Principles 19**

Advisors with supervisory staff visited all banks onsite during the course of the technical assistance program. Even though advisors were not included in the routine examination process, during the systemic reviews, discussed above, and at other points during the term of this technical assistance (e.g., foreign exchange specialist training) all banks were visited one plus times. Additionally, our advisory team was routinely asked for guidance from supervisory staff and senior management in the ongoing examination of banks. The lack of ongoing onsite participation was initially raised as a concern by our advisors and USAID officials, however, this project proved that technical assistance can be effective without frontline participation if adequate communication channels are in place and a trust factor is developed whereby supervisory management views the advisors as a resource.

Trading/Treasury and Credit Best Practice systemic analyses were introduced enabling NBR to assess risks in the marketplace. Our advisors along with NBR supervisory staff designed a series of questionnaires for bank management to ascertain current activities, practices and risk management techniques for credit and foreign exchange. All banks were visited during a seven-month period. The results of our interviews/onsite visits were compiled into a summary report and presented to NBR senior management (July 2002). NBR management was encouraged to share this data with the banks through either a written summary or via an outreach seminar.

#### **Principle 21**

Significant assistance was provided in the area of International Accounting Standards and its implementation in the Romanian banking system. The resident advisors worked closely with the three-bank supervision department section chiefs to review and incorporate IAS into the bank supervision function. Given there was no legislation supporting this effort, the process was not prioritized by the NBR management team. During the final days of the project, a technical advisor provided specialized training in various aspects of IAS Standards and how

the NBR BANK examiners should monitor them. This training was conducted in response to the NBR's concern about the implementation of IAS in nine commercial banks on January 3, 2003.

These principles will not be adequately addressed until the enormous quantity of regulation concerning accounting and reporting is brought into concert with IAS and until the market audit practices are unified with IAS.

#### **Principle 22**

An effective problem bank supervision process has been implemented which has resulted in the resolution/intervention of numerous banks. During the course of the program, our advisors have provided technical expertise to the supervisors on both large and small institutions which were identified as troubled for numerous reasons—liquidity, asset quality, subsidiary activities, fraud, etc. The NBR was able to effectively resolve and privatize numerous institutions including the largest state-owned institutions.

A Financial Institution Rehabilitation and Resolution methodology and process was designed and implemented to address the issues consistently, quickly and effectively. During the past several years, the NBR was faced with numerous problem banks. We worked closely with the supervisory staff and NBR management to address and resolve each individual institution at the least impact to the financial sector. Initially our assistance was requested on the largest state-owned enterprises, e.g., Bancorex and Banca Agricola to assist the country in meeting World Bank requirements. More recently, we have provided, when requested, technical expertise in addressing issues at privately owned problem institutions such as Banca International Religior (BIR), Banca de Investitii si Dezvoltare SA (BID), Banca Romana de Scont SA (BRS), Banca Turco-Romana SA (BTR), and their affiliates. Please see the attachments. Banca Agricola was finally resolved by their recapitalization and sale to Raffeisenbank SA. The largest bank in Romania is the state-owned Banca Comerciala Romana (BCR) and the team has assisted in the privatization program since 1999; which should now culminate in a privatization/sale of this entity to a large international bank by the last quarter of 2002 or the first quarter of 2003.

A Decision Matrix for Progressive Enforcement Actions matrix was designed to assist the NBR in evaluating and documenting the need for intervention of an institution. The matrix contains a series of questions/check points which enables the supervision staff to assess the current conditions of an institution using an 'if...then.' process. It has enabled the supervision staff to act consistently and rapidly and has been utilized on all financial institutions and is incorporated into the Financial Institution Rehabilitation and Resolution Manual. Please see the attachments.

A 'Quick Form' Problem Bank Financial Analysis model was created to assist in evaluating the cost of liquidating, resolving and/or merging problem institutions. The model was created to assist the NBR in making initial supervisory decisions in an efficient manner based on potential costs/value. This model was introduced in 1999 and utilized in all problem banks

since this time. It has also become the document by which the NBR communicates alternatives for financial institution to the International Monetary Fund and the World Bank.

###### **10. Detailed Description of the Work Accomplished Under the Current Task Order with Tangible Results**

The Phase Three Task Order outlined ten results to be accomplished during the period of this Task Order. These Results built on prior work that had been accomplished in the previous task orders with added emphasis on the oversight and integration of the cooperative banks into the National Bank's realm of supervision. During monthly reports, the steps taken to ensure compliance with the Task Order objectives were discussed in detail. Additionally, a summary is provided below highlighting our efforts to achieve Full Compliance with the Results as required. Overall, we are pleased with our outcome and feel that not only have we helped to develop the necessary systems and foundations of a banking supervision process but we also ensured that counterpart buy-in was obtained and the policies, procedures, guidelines, laws, etc. designed have been (are being) incorporated in daily activities.

Progress in the achievement of the Tangible Results as outlined in the Task Order is summarized below by the specific Task Order:

1. The contractor will carry out an evaluation of the National Bank of Romania's (NBR) compliance with the Core Principles. This will assess the efficacy of the onsite/offsite processes, tools and the level of integration of international standards into the supervisory processes of the NBR.

An initial assessment of the NBR compliance with Core Principles was completed at the commencement of this Task Order. It was presented to senior management for discussion, and areas in need of improvement were incorporated into our ongoing work plan for assisting the NBR in the strengthening of the supervisory process.

- An analytical tool was developed based on the BIS Methodology for assessment against the Core Principles enabling the identification of the degree of compliance with each element;
- The analytical tool incorporated a numerical aspect enabling a score for assessment purposes;
- The methodology was and is updated on a monthly basis providing a continuing snap-shot of the degree of compliance and the tasks remaining to be accomplished for the Supervisory authorities in Romania;
- The tasks identified have become a major source deliverables for the NBR's planning and operations; and
- Training sessions were conducted with the management, the Regulation Department, and with the Analytical Section of the Supervision Department that has permitted the project to pass the responsibility for the monthly update on to NBR personnel.

Achieved  X  Partially Achieved      Not Achieved    

2. Onsite, on-the-job training will be developed and delivered in a program for another six banks, in addition to the six banks from Phase II (the pilot program).

Even though our advisory team did not routinely participate in onsite supervision activities, during the term of the Task Order, the advisory team visited all banks and

provided substantial input to supervisory activities of the NB. Training was provided to examiners during the onsite visits, and supervisory processes and procedures were tested. Our advisors also played a significant role in all evaluations of troubled institutions (from an offsite/behind the scenes basis) and provided guidance on unique/high risk activities. The NBR routinely looked to our advisors to provide assistance and to serve as a resource in the examination process.

- Onsite and on-the-job training was carried out in all Romanian banks in the areas of credit and trading and treasury;
- The results of the exercises were used to feed a survey of practices, modification of practices, and amendment to regulations; and
- The areas requiring additional training were identified and made a part of the examiner training plan.

Achieved  X  Partially Achieved \_\_\_\_ Not Achieved \_\_\_\_

3. The bank supervisory authority will have implemented a plan for integrating the cooperative (popular) banks into the supervisory processes, both offsite and onsite.

The NBR will be required to take on full supervisory responsibilities for cooperative banks at year-end 2002. The advisory team has worked with the NBR to develop rules, procedures and plans for the integration. The initial processes are in place for the integration, and supervision staff continues to work on designing the necessary examination procedures/techniques that will be necessary for the oversight of these institutions.

- With the assistance of the advisory team, the regulation department of the NBR has drafted and promulgated a legislative package that required a three-phase incorporation of the cooperative (popular) banks into the supervisory responsibility of the NBR;
- The requirements were a series of 'hurdles' which ensured that only relatively healthy institutions were considered (a pool of 2,300 to 2,600 was reduced to less than 500) with the remainder being required to be liquidated;
- The cooperatives were required to be part of a central house that would have the responsibility to control, manage, and to collectively attain the appropriate level of reserves, capital, provisions, and other such benchmarks;
- The last step in the process is for the NBR to take on supervision responsibilities at year-end 2002;
- The NBR is currently reviewing the largest of the cooperatives as a way to validate the information being supplied in the approval process and to achieve a certain level of comfort that the cooperatives are being appropriately managed.
- The most recent indications are that there will be only one central house and no more than 500 cooperative entities.

Achieved  X  Partially Achieved \_\_\_\_ Not Achieved \_\_\_\_

4. The bank supervision authority will have examined those banks scheduled for onsite examination during the period of the Task Order and communicated final reports of inspection to said bank management.

An examination schedule is in place and Reports of Examination are generated after each activity. The supervisors have drafted a revised Report of Examination format with input from our advisors which is being considered for adoption by the NBR for

all onsite activities. The revised format utilizes a format based on the U.S. model which has been adopted by several countries in the region.

- The NBR sets a schedule of examinations to be effected during a given year before the close of the year prior;
- The schedule is designed to allow for: all banks to be reviewed on an annual basis; follow-up onsite visits to verify the implementation of agreed measures; targeted examinations prompted by offsite analysis or other indications of difficulties; and use of supervisory staff for problem bank work-outs;
- The Board of Directors of the NBR approves the schedule;
- The Vice Governor of the NBR approves the thematic objectives to be analyzed on the onsite reviews;
- The Director and Deputy Director supervise the three teams who are responsible for the exams;
- The section Chiefs directly supervise the onsite supervisors who conduct the examinations;
- A letter from the Vice Governor advises the banks about the examination and empowers the NBR examiners to conduct the examination;
- The onsite supervisors in conjunction with the section chiefs write a report of examination following a standard that conveys the result of the examination which is in turn approved by the Director and Deputy Director of the Supervision department;
- A report of the examination is presented to the management of the bank being examined with the findings and the recommendations;
- A follow-up mode is initiated to ensure that all undertakings are met as agreed; and
- In instances where a bank does not make the necessary changes, multiple measures of varying severity are available according to the Decision Matrix for Progressive Enforcement Actions.

Achieved  X  Partially Achieved      Not Achieved    

5. The bank supervision authority will assure to increase banking community awareness of regulatory requirements and supervisory philosophies.

The National Bank of Romania has taken an active role in implementing an ongoing communication policy with the public, press, government officials, etc. A communications expert provided short-term guidance under a previous task order and outreach seminars for bankers were organized to discuss trends/new procedures and practices for the sector.

- The NBR has a sophisticated and daily active public relations and public information campaign;
- Information about banks in difficulty is presented to the public so that they may become aware of the reasons for the difficulties, thereby increasing the public's ability to determine the best institution for investing its liquidity;
- Each month, there are multiple media exercises sponsored by the NBR, the Romanian Bankers Association, individual banks, and other market participants about the developments in the market;
- All NBR regulations are published, each month a report of results and actions is published, and, in the process of amendment of banking law, drafts are circulated to market participants for comment;

Achieved  X  Partially Achieved      Not Achieved    

6. All inspection staff will have the advanced level of skills to perform an onsite inspection analysis in accordance with basic and prudent regulations and will receive the necessary training to perform NBR's mission statement and strategic plan.

The NBR has provided ongoing training both in- country and abroad to its inspection staff resulting in strong supervisory skills, a base knowledge of international standards

and an ability to identify risks in the financial sector. Some ‘specialist’ training has also been provided to a select group of examiners in topics such as foreign exchange, treasury activities and credit evaluation. The NBR also has developed a group of examiners who have a high degree of problem bank supervision expertise.

- An international standard employee assessment and training policy has been developed over two years where each employee has been assessed against a standard and training needs have been identified;
- A training plan has been developed based on the above results; and
- This assessment has been incorporated into the annual review of the examination staff;

Achieved  X  Partially Achieved \_\_\_\_ Not Achieved \_\_\_\_

7. Bank Supervision Inspectors and NBR’s Legal Department will effectively initiate informal and formal supervisory and enforcement mechanisms for implementing the law to govern credit cooperatives.

Refer to No. 3.

- The NBR’s Regulatory section has structured the laws and regulations to ensure that there is a certain level of quality of any cooperatives admitted for supervision of the NBR (resulting in 80+ per cent of them being moved into liquidation);
- The NBR has a policy codified in the regulations that have been promulgated for cooperatives; and
- The balance of the year of 2002 will be preoccupied with creating a tailored set of regulations specifically for the cooperatives which will take effect January 1<sup>st</sup>, 2003 and also incorporate a Decision Matrix for Progressive Enforcement Actions as is the current practice for the banks.

Achieved  X  Partially Achieved \_\_\_\_ Not Achieved \_\_\_\_

8. The bank supervision authority will have tested, modified, and refined its regulatory and policy framework pertaining to the problem bank resolutions.

Over the term of this contract and under prior task orders, the NBR has had numerous problem institutions including large state-owned as well as newer, private banks. They have adopted a comprehensive examination procedures manual and processes which addresses all aspects of supervisory actions from – obtaining corrective measures through enforcement actions to liquidation. The NBR’s aggressive, ongoing and consistent efforts in this area (identifying and timely resolution of known problems) has resulted in an increased respect for the actions taken by the marketplace and increased governmental support (i.e., local police, courts, etc.) This is probably best emphasized by the growing number of foreign banks in the marketplace which attests to the strengthening of the sector.

- The NBR has in place a Financial Institution Rehabilitation and Resolution manual that was specifically drafted to provide guidance during problem bank resolutions;
- The NBR has resolved, during the period of this task order, four banks (Banca International Dezvoltare - BID, Banca Romana de Scont - BRS, Banca Turco-Romana - BTR, and Banca Agricola - BA); and
- Modifications to the Banking Law, the Statutes of the NBR, the Bank Bankruptcy Law, and numerous laws and regulations have been made in response to each development in the process of resolving the banks.

Achieved  X  Partially Achieved \_\_\_\_ Not Achieved \_\_\_\_



9. Inspectors who received training in the U.S. will develop reference materials and case studies for the BSD and hold seminars for the NBR bank supervision staff to transfer information and skills.

During the life of the three task orders, over 30 NBR supervision personnel attended training in the U.S. and in many instances the individuals also participated with U.S. regulators during onsite examinations in banks. Additionally, personnel from the NBR participated in the joint USAID and Barents Group/KPMG Financial Supervision Conferences hosted in Bulgaria, Poland, and Croatia. (Refer to Attachment for list of participants and courses attended.)

- Each of the examination personnel who have attended training in the US have issued a report and distributed the materials received to all colleagues who could use them;
- A library of references has been developed and includes the course material conducted both in country and ones attended abroad; and
- Methodologies and documentation used in the course of NBR activities include changes occasioned by the training input.

Achieved X Partially Achieved \_\_\_\_ Not Achieved \_\_\_\_

10. The contractor will help the NBR achieve relevant World Bank and IMF Conditionalities.

Our advisory team has played an integral role in assisting the NBR in meeting the requirements of the World Bank and IMF conditionalities. Additionally, they were actively involved in working closely and sharing information with other USAID and other donor projects in Romania. Our residents frequently met with individuals from US Treasury, World Organization of Credit Unions, European Bank for Reconstruction and Development, Financial Service Volunteer Corps, Coalition for Housing Foundation, Romanian-American Enterprise Fund, and many other donor organizations.

- The contractor has been actively involved in the relationship between the NBR and the World Bank and the IMF;
- The contractor maintains a weekly contact with the IMF to keep informed of recent developments and helps formulate any responses necessary;
- The contractor was actively involved in the NBR response to the IMF's requirement to incorporate a profitability component into the loan provision methodology which is to be implemented with full effect January 1<sup>st</sup>, 2003;
- The contractor helped the NBR respond to the World Bank requirements for an internal credit rating capability resulting in the World Bank downgrading the requirement.

Achieved X Partially Achieved \_\_\_\_ Not Achieved \_\_\_\_

---

## 11. Issues Pending

At the culmination of this five years of technical assistance, the National Bank of Romania continues its efforts to improve bank supervision to the level of international practice.

Although Barents Group has made significant progress in guiding the development of this important function; several matters remain “in process”.

- The NBR has supervisory responsibility over the Credit Cooperatives. This poses a particular challenge due to the quantity (many hundreds of offices) and their broad range of activities. The NBR requires assistance to develop their bank supervisory capacity over the Credit Cooperatives (e.g. from WOCCU) or a dedicated specialist from a significant consultancy should assist in adapting the examination and offsite analysis practices so as to tailor them to the unique characteristics of the cooperatives.
- The NBR Bank Supervision Department should have more guidance during the implementation of IAS. The largest nine banks in the country will begin to use IAS on January 3, 2003. Although they will be running concurrently with Romanian Accounting Standards, the Bank Supervision department employees nationwide must become familiar with IAS and the use of such in the banking sector. This will require the training of examination staff in this area to enable them to review the processes and methodologies followed in banks against these new standards. A section of the examination manual should be drafted and then tested in the field that will identify the less than twenty differences between the old Romanian accounting standards and the new accounting standards.
- The implementation of the derivatives law allows a financial institution to become a market maker if they can demonstrate the necessary capability in terms of expertise, infrastructure, and risk control. We suggest that the services of a financial specialist be acquired and applied to the approval process that is occasioned by this law. The specialist should design an explanatory manual, a training package, a self-study package, a bibliography, and a methodology for the step-by-step approval process. This process can then serve as the base for the evolution of this function in the Supervision Department; adapted as necessary for the changing market. The Supervision Department has been made the responsible party for the determination of this capability. This responsibility when properly fulfilled will enable sophisticated instruments and other products to be provided by the financial institutions while minimizing the systemic risk. In line with the development of a sophisticated group of financial specialists in this area, the project has trained at length a group of three trading and treasury specialists. Also, a trading and treasury specialist has held twice an open seminar on the subject of derivatives. This having been said, it will be very important that the applications for 'market-maker' are treated with the utmost care, the requirements should be onerous, and the 'bar' placed high.
- The examination manual and other must be provided to the banking community so as to have an explicit statement of what the NBR considers minimum standards for the activity of the banking community and to give them the opportunity to address the issues detailed prior to the examination. This transfer of knowledge will raise the

sophistication base in the market to the benefit of all participants. Issues that could be included in this effort are law and the court system, criminal court processes, rules of evidence as they apply to civil and criminal actions, forensic accounting, methods for the identification of fraud, security in financial institutions, product profiles, et al.

- Continued efforts should be made to implement the onsite bank supervision manual through the access to banks on targeted bank examinations. Advisors should be provided to give guidance on the supervisory process whereby the manual (translated to Romanian) is tested, revised and finalized.
- In-house analytical-based training must be stepped up. There should be a more focused approach to training that takes into account the resources available as well as the commitment extended by the NBR. Training in the onsite bank examination processes from Examination Planning to Overall Conclusions (chapters of the manual which are tested during the bank examinations); Conducting Boards of Directors meetings; offsite ratio analysis under IAS; If the necessary resources (specialists, materials, seminars, et al) are unavailable for whatever reason, the supervision staff must be utilized to develop the information and pass it along to all appropriate personnel. This could be accomplished by including in the responsibilities of the staff the requirement of developing a study in a single subject in a particular field at least once a year and present the findings in some form to the Supervision Department or the NBR as a whole. The learning process must become more institutionalized.
- The Supervision Department should foster the establishment of user groups for areas and subjects of concern. The Bankers Association and the trader's associations are not enough when you consider the issues that are in the market. A 'credit association' could address the difficulties of assessing a clients risk profile, the difficulties with the documentation in the Romanian legal context, and other issues pertinent to their specialty. The availability of a 'risk sub-committee' of the Banker's Association might allow communal attention to such issues as value assessment, business recovery, risk modeling in Romania, and any other number of other issues. These specialty groups would provide the venue for development of new products and resolution of issues that impede the growth and penetration of financial services in Romania.
- The protection of the Supervisory personnel and of the personnel of the NBR in the carrying out of their duties afforded by the law does not address a provision for the support of legal costs occasioned by actions brought by outside parties. The issue could be resolved by an amendment to law or by the issuance and ratification by the board of an employee benefit providing legal support services in such instances at no cost to the employee.
- Consideration should be give to an Information Management System that would provide for imaging of the work papers in some form (microfilm, microfiche, imaging, etc.) that would provide a fall back for the possibility of loss. A centralized filing system for the records maintained for the examination staff would enable a more reasonable work environment, the standardization of the records kept, a better audit trail for the legal documents that the NBR is required to be maintain, and a more efficient work standard because of easy access.

---

**12. Linkage with Other Donor Programs and with the International Community**

Every effort was made to extend all possible assistance to the donor community as a way of leveraging the effectiveness of the project and to further the development of the market:

**Coalition for Housing Foundation**

The project maintained a years long relationship with the local representatives and the US management of CHF. Where there were opportunities to assist with regulatory issues (explanations, introductions, etc.), they were instantly arranged through our network of contacts.

**Financial Services Volunteer Corps**

The project assisted the functions of the FSVC in Romania and maintained a continuous relationship with the representatives. Where possible, the project conducted joint exercises in the area of law. One such exercise was the sharing of support for a lawyer to assist in the revision of the Bank Bankruptcy Law and the Law on the Deposit Guarantee Fund.

**U.S. Treasury**

The U.S. Treasury has maintained a presence in Romania in the area of budget, debt, and tax. The project acted as a conduit for the distribution of the accumulated knowledge relevant to these areas providing translations, advice, interpretations, scenario evaluation for new approaches, and also providing them with the opportunity to be a part of the formulation process for laws guiding the banking community.

**International Monetary Fund**

The representative of the IMF had offices in close proximity to the project but also had continuous interaction with the specialists. The areas of regulatory evolution, financial institution resolution and privatization, and general crisis management were cooperative efforts between all the parties and the project played a significant part. It was common for the advisors to be included in the processes occasioned by the frequent IMF team visits so as to provide them with the most complete resources and information.

**World Bank**

Similar remarks can be made about the World Bank. The most significant bank resolution (Bancorex) was effected as a partner with the World Bank resulting in a process that has become a standard in the World Bank.

**U.S. Embassy**

The project was tapped often to provide the diplomats with the most current information about the banking system and the developments in the market. There was established a two way communication flow that continues today with the frequent meetings with the law enforcement and economic representatives of the U.S. government resulting in a more effective approach to important issues.

---

**13. Training Accomplished**

Name	Period	Course/Seminar
	4-8 August 1997	Bank Supervision Orientation
	13-17 October 1997	The Basic Bank Supervision
	10-14 November 1997	Advanced Bank Supervision
Iuliu Iacobescu	February 23 - February 27, 1998	Introduction to Credit
Iuliu Iacobescu	March 1 - March 5, 1998	Intermediate Credit Analysis Seminar
Dorel Onetiu	March 1 - March 5, 1998	Intermediate Credit Analysis Seminar
Rodica Popa	July 20 - July 31, 1998 / 3-14 August on-site	Financial Institution Analysis School
Marian Laurentiu Mustareata	July 20 - July 31, 1998	Financial Institution Analysis School
Lucretia Niculina Paunescu	October 26 - November 13, 1998	The World Bank/FRS Seminar for Senior Bank Supervisors
Oana Iuga	October 26 - November 13, 1998	The World Bank/FRS Seminar for Senior Bank Supervisors
Denisa Carmen Simion	July 6 - July 8, 1999	Bank Supervision Conference
Gabriela Constanta Hoholea	July 19 - July 30, 1999 + examination	Financial Institution Analysis School
Lenuta Cazan	July 19 - July 30, 1999+ examination	Financial Institution Analysis School
Elena Georgescu	October 18 - November 5, 1999	WB/FRS Seminar for Senior Bank Supervisors from Emerging Market Economies
Sandu Anton	October 18 - November 5, 1999	WB/FRS Seminar for Senior Bank Supervisors from Emerging Market Economies
Iuliu Iacobescu	May 8 - May 19, 2000 + May 22 - June 2	Banking Analysis
Catalin Barbulescu	May 8 - May 19, 2000	Banking Analysis
Aurica Rusu	May 22 - May 26, 2000	Bank Accounting Auditing and Controls
Iuliana Marinescu	July 17, 2000 - July 28, 2000	Bank Analysis and Examination School
Ioan Hidan	July 17, 2000 - July 28, 2000	Bank Analysis and Examination School
Anca Ionita	July 31 - August 11, 2000	Credit Risk Analysis School
Viorel Aprodu	July 31 - August 11, 2000	Credit Risk Analysis School
Lucretia Niculina Paunescu	August 14 - August 25, 2000	Bank Management School
Silvia Ciorgoda	August 14 - August 25, 2000	Bank Management School
Monica Florentina Zirbo	August 28 - September 8, 2000	Market Risk Analysis / Risk Management and Internal Control
Cristina Nastasescu	August 28 - September 8, 2000	Market Risk Analysis / Risk Management and Internal Control
Mihai Serban	August 28 - September 8, 2000	Market Risk Analysis / Risk Management and Internal Control

Name	Period	Course/Seminar
Andrei Solomon	April 17 - April 19, 2001	International Visitors Training Program
Marina Popa		
Daniela Grigore	May 7 - 18 May 2001	FRS Bank Analysis and Examination School
Marian Cascaval	May 7 - 18 May 2001	FRS Bank Analysis and Examination School
Petre Marica	July 16 - July 27, 2001	FRS Bank Analysis and Examination School
Iuliana Ionescu	July 16 - July 27, 2001	FRS Bank Analysis and Examination School
Florian Neagu	August 27 - August 31, 2001	FRS Bank Analysis and Examination School
		FRS Joint WB / for Senior Bank Supervisors
Ramona Malvina Dascalu	October 15 - November 2, 2001	from Emerging Market Economies

---

**14. Financial Data Trends**

The information in the annex is drawn from the Monthly Bulletin issued by the National Bank of Romania for the month of July 2002 available on the NBR's website at [www.bnro.ro](http://www.bnro.ro).

The increase of the banking system proceeds apace with the increase in the GDP. Total Assets in the banking system have reached \$12.4 billion which is an increase of 24% over the same period last year. Credits to non-government entities total \$4.4 billion growing 33.7% over July 2001. Average lending rates continue their downward trend reaching 18.4% for non-bank entities as compared to 27% a year ago. Approximately half of these loans are denominated in foreign currency.

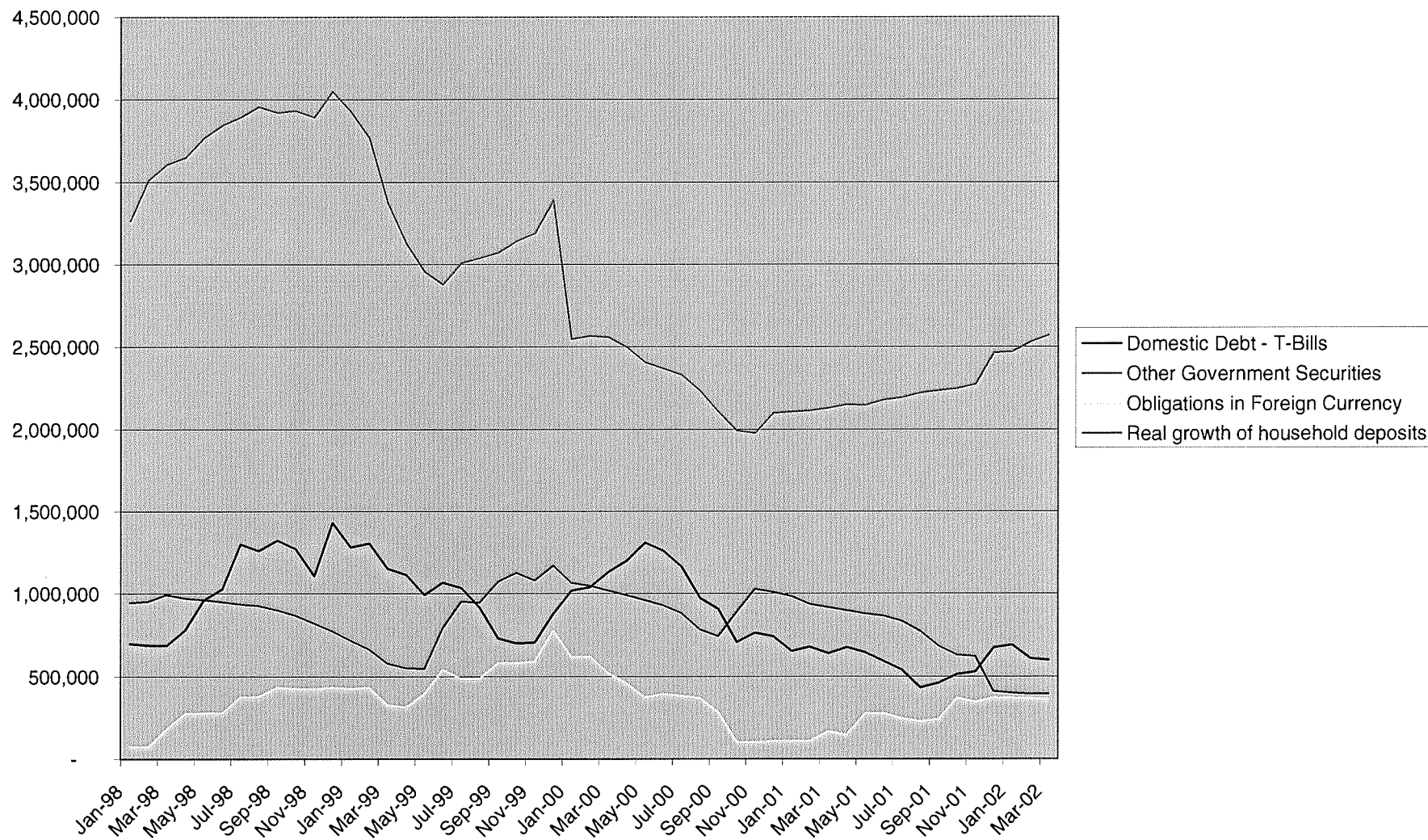
Household deposits exceed \$2.8 billion having achieved an increase of 28.7% over the same period last year. Total deposits have reached \$8.0 billion; an increase of 25.8% over a year ago.

Total capital in the banking system has reached \$1.8 billion and increase of 20.6% over last year largely due to the mandatory increase in the minimum capital requirement to approximately \$8 million effective 31 May 2002.

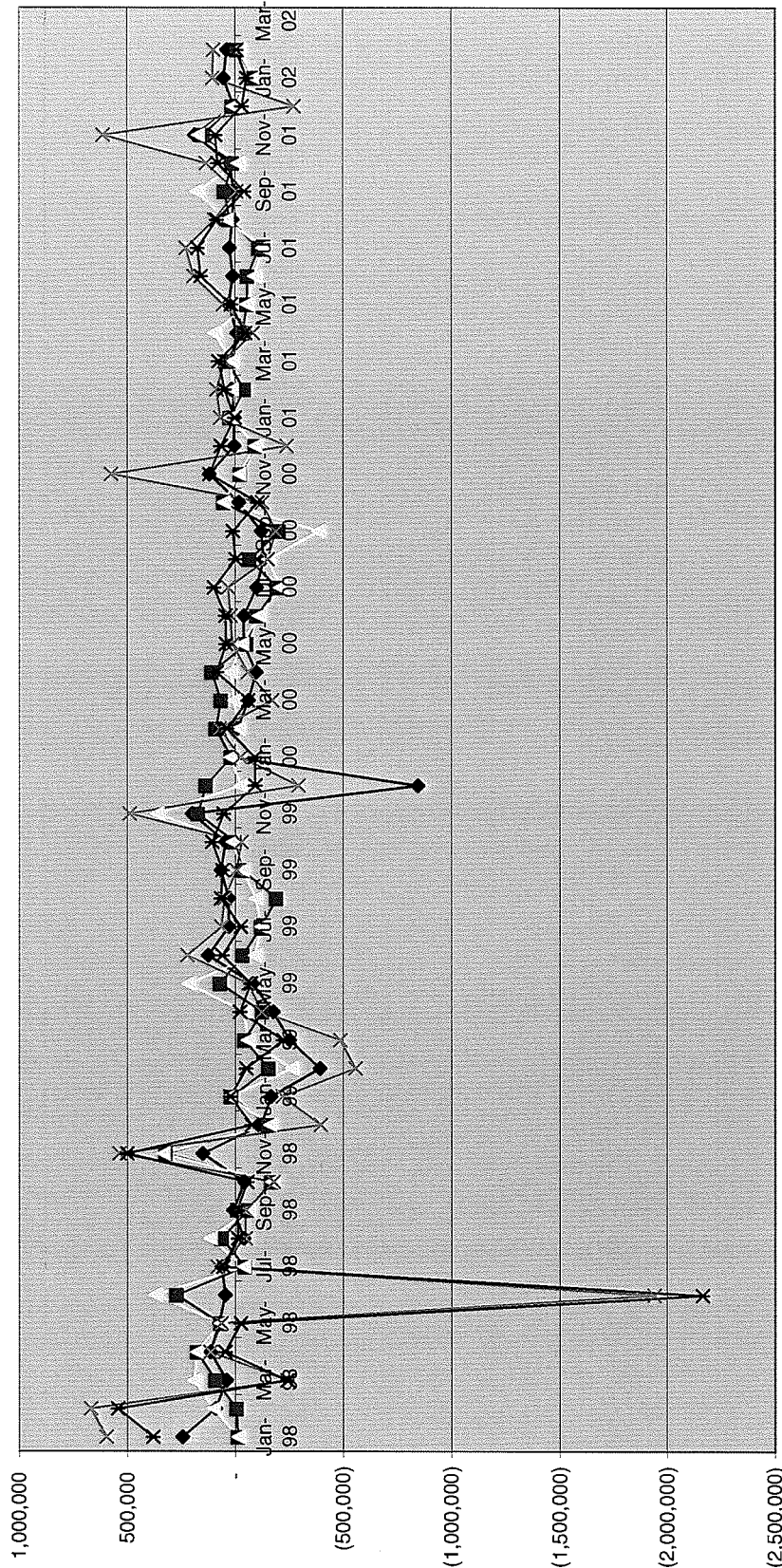
(Please refer to the following six pages and *Supervisory\_Assessment.pdf* found on the enclosed CD Rom.)



# Deposits and Treasury Bills (USD 000)

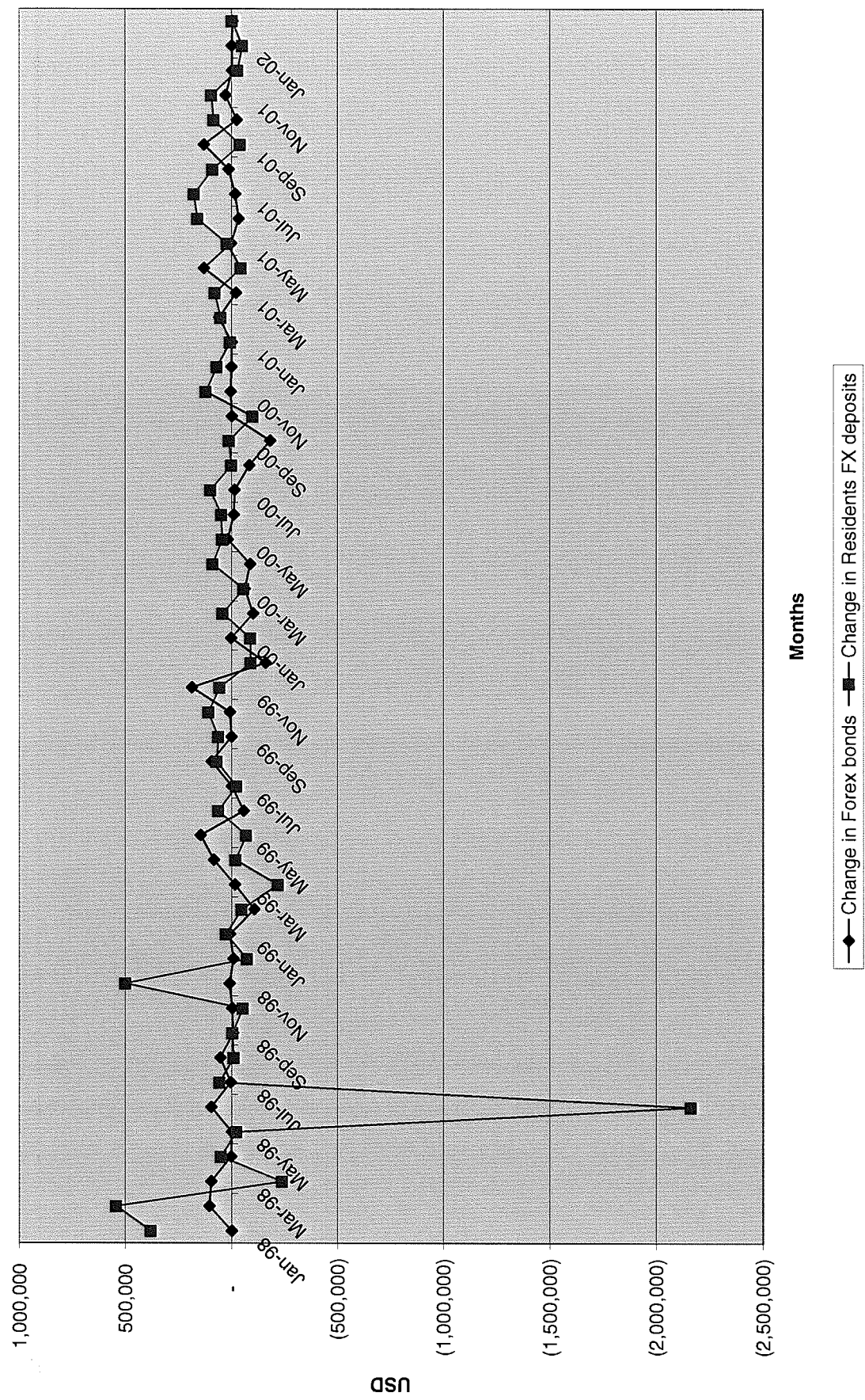


# Changes in Deposits and TBills



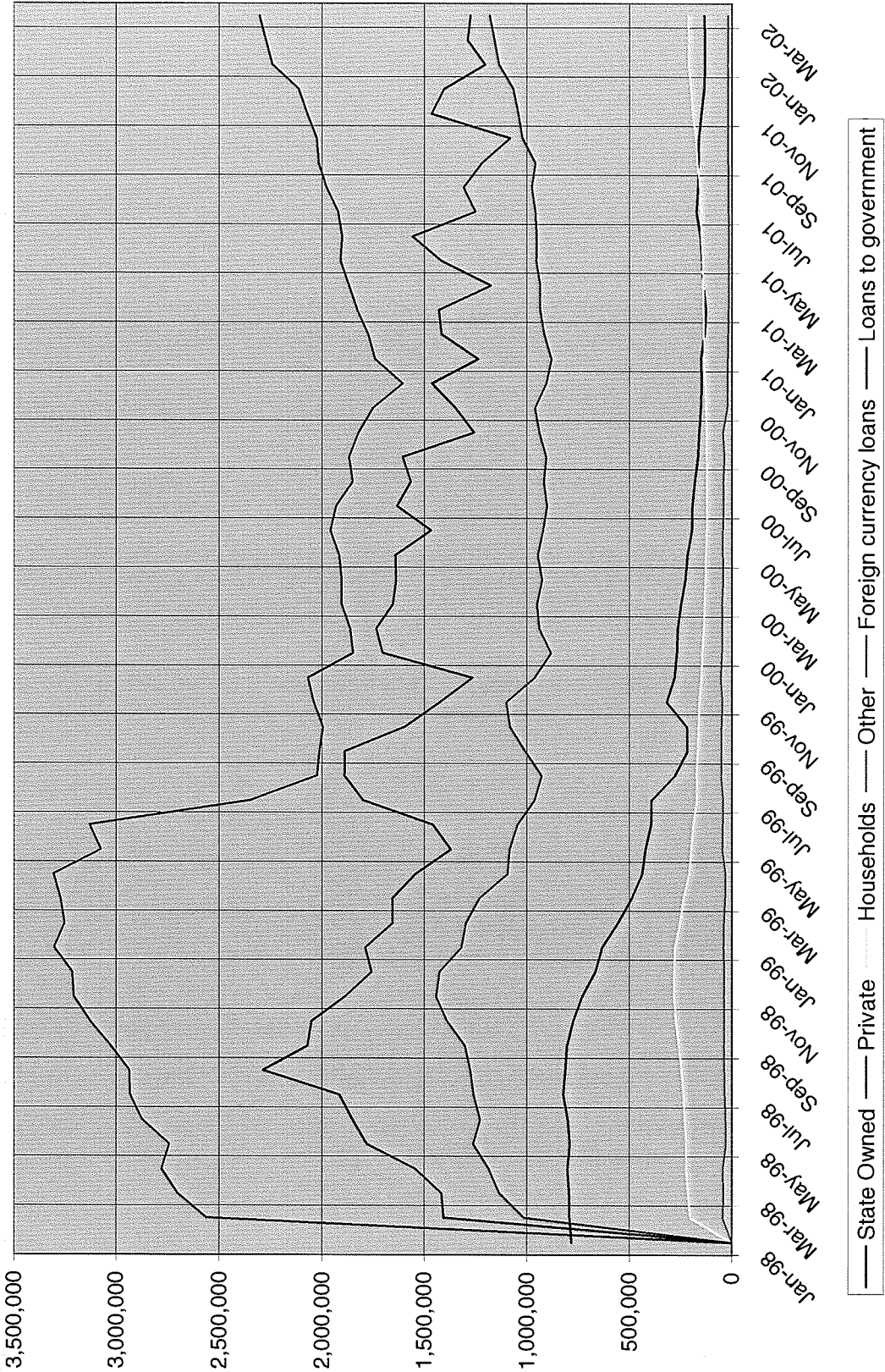
◆ Change in Household dep mtm	■ Change in Tbills mtm	△ change in Tbills and FOREX bnds
× Change in Total Deposits	* Change in Residents FX deposits	

Forex Bonds/Forex Deposits

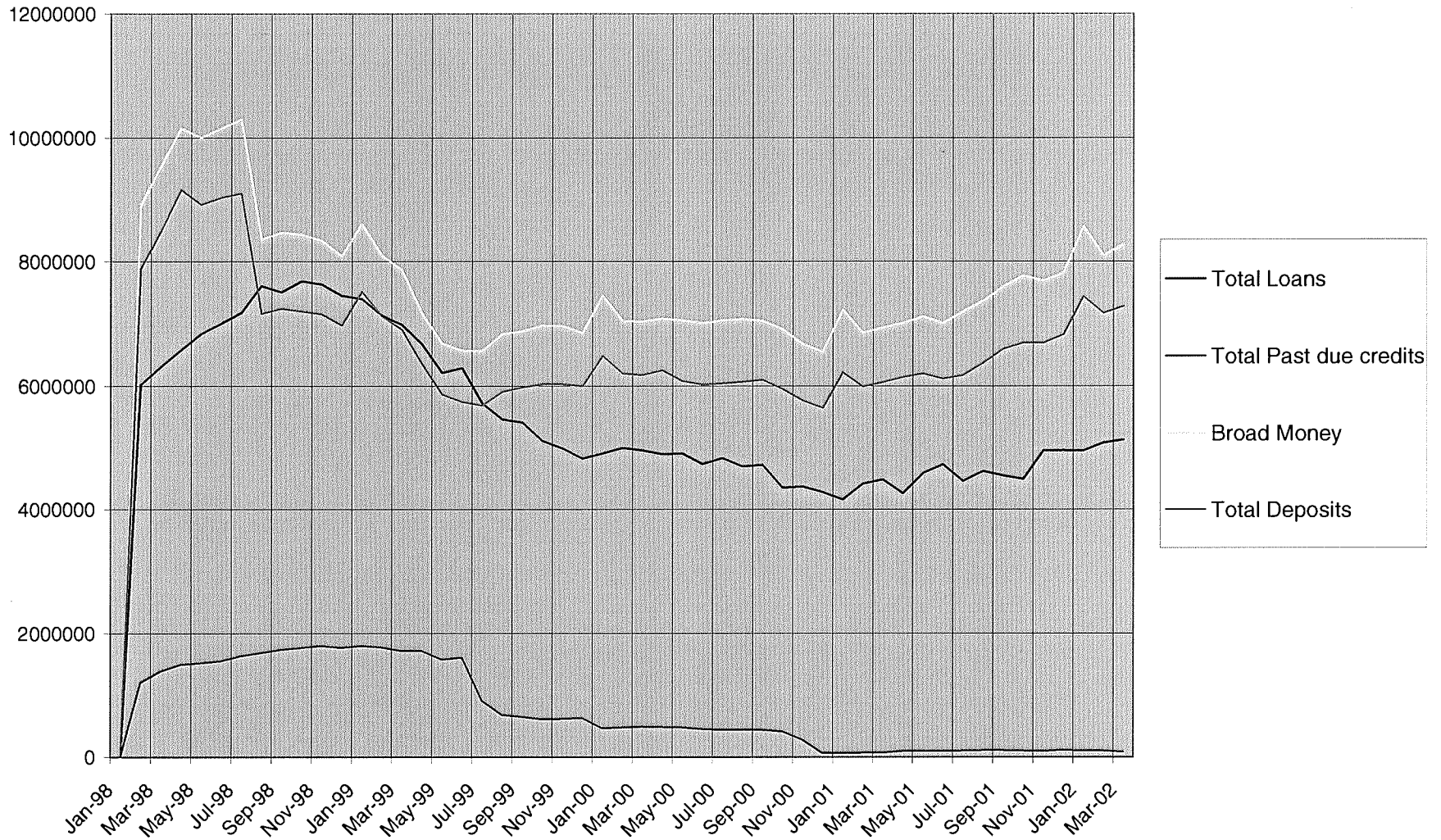




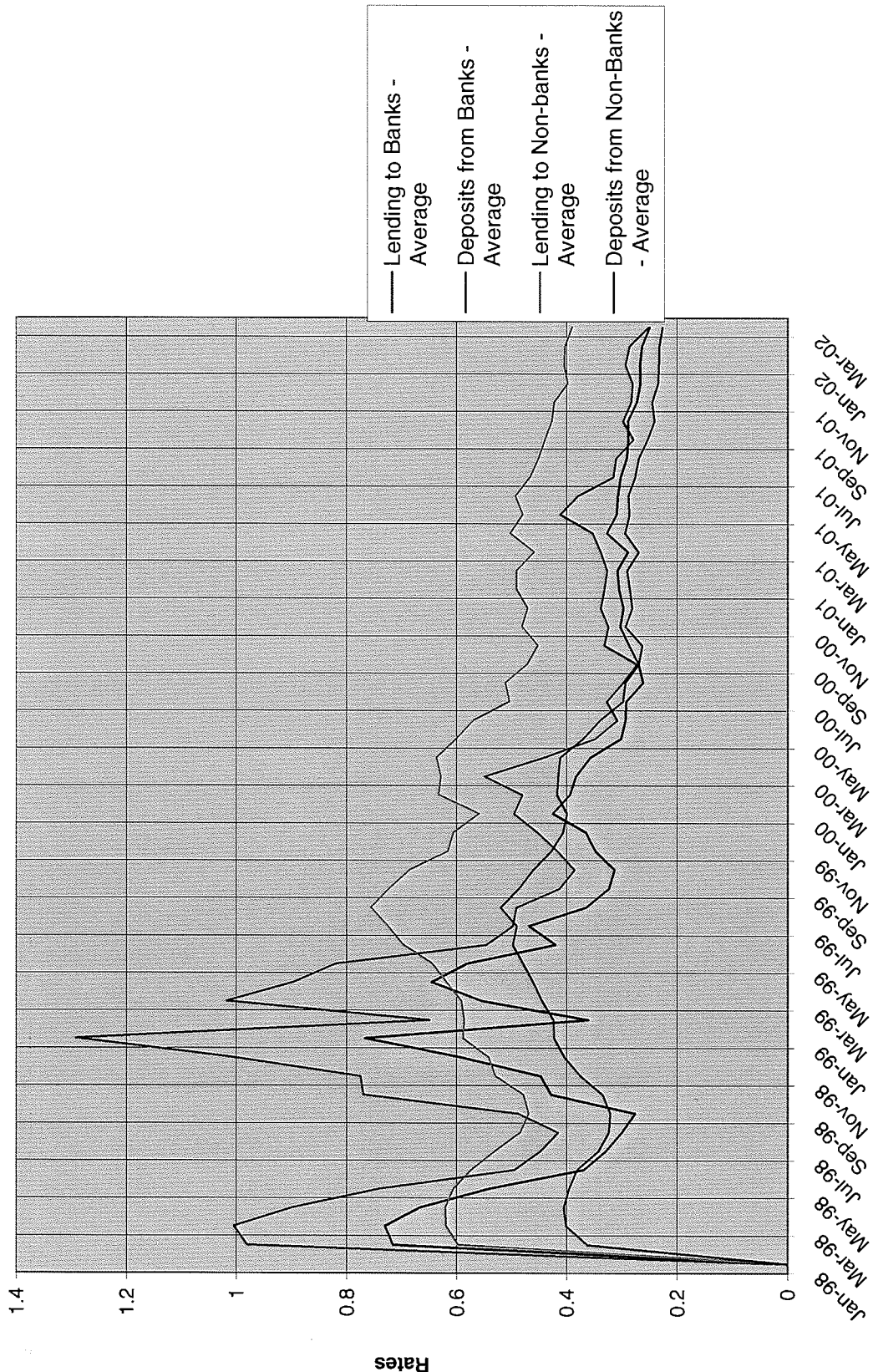
**Total Loans by Category  
(USD 000)**



**Selected Comparisons  
(USD 000)**



Interest Rates for Banks and Non-Banks



**15. Prior Final Reports**

--NIS I-01-99-00001-00

--EPE-I-00-95-00048-00, Task Order No. 14





National Bank of Romania  
Bank Supervision, Restructuring and Enforcement: Phase II

Report for the Contract End  
As of 31 July 2000

Barents Group, LLC

United States Agency for International Development  
Bureau for Europe and the New Independent States (ENI)  
Privatization and Economic Restructuring (PER)  
Contract No. NIS-I-01-99-00001-00  
CTO Mr. Dan Anghel

Report Prepared by  
Project Manager Lori Bittner Yerzyk  
With information provided by  
Resident Advisors John Ewald and Kathryn Woolford

## **I. TECHNICAL ASSISTANCE BACKGROUND**

### ***Banking Sector Overview***

The Romanian banking sector has begun to strengthen in comparison with its condition at the end of 1998. Significant changes brought by the new banking and bank bankruptcy laws put into force in 1998 have gradually brought about changes in the banking community. However, the need for supervision and restructuring assistance is greater than ever before. Only through the enforcement of the new laws and regulations may the National Bank of Romania effectively create changes in the banking system. The National Bank of Romania supervision department is developing a cooperative effort toward supervision. Cooperative in that the supervisors and the bankers are working together to strengthen the system. But a strong financial system does not develop overnight and the changes are frequently painful.

Aggressive development of the credit cooperatives which, appear to enjoy an unfair competitive advantage over the commercial banks, is a factor seriously threatening the financial system as a whole. Development of a strong law to govern the credit cooperatives is paramount at this time. The NBR is leading the development of this law and readying itself for the task of supervising the larger credit cooperatives, known as popular banks.

While stability of the Romanian economy as a whole is extremely desirable, there is a price to pay in the banking system. The NBR supervision department is looking ahead to the time when banks will be purchasing fewer Treasury Bills and will be forced to make more investments in the private sector through direct investment and lending. The supervision department's tools for this eventuality are a supervision practice developed on the basis of risk analysis and a comprehensive early warning system.

### ***Accomplishments of Phase I of the USAID Bank Supervision Program and Overall Goals for Phase II***

USAID commenced a comprehensive bank supervision program in May of 1997 with one full time advisor and in July of 1997 staffed the program with two full time advisors (Phase I). Phase I of the program ended as of April 1999. The overall objectives were to:

- promote the institutional development of the Bank Supervision Department(BSD) at the National Bank of Romania;
- strengthen the capacity of the NBR/BSD to regulate and monitor the banking system and individual banks; and
- assist the NBR in establishing supervisory policies and procedures to deal with problem banks.

Recognizing the early stage of development the objectives were basic but still ambitious. These fundamental objectives have been met despite the fact that some underlying tasks could not be accomplished such as participation in on-site inspections and the implementation of a risk-based supervisory approach. This Task Order represents Phase II of the Program. Significant basic institutional development as reflected in the above objectives must still be deepened and the development of a modern supervisory culture must be accelerated to meet the demands of the deepening financial crisis. In addition, new programmatic objectives and priorities have emerged in light of the significant role USAID had in addressing individual problem bank resolutions such as Bancorex. Focused assistance must be provided on these areas, however, they must be done within the broader context of continued institutional capacity building within the BSD and within the overall objective of creating a sustainable modern bank supervisory culture at the NBR.

## **II. STATEMENT OF OBJECTIVES-Phase II**

The tangible results and benchmarks contained in this Task Order are all designed to meet ENI Bureau Strategic

Objective 1.4 as well as specified goals.

*ENI BUREAU Strategic Objective 1.4 - A competitive, private and sound financial sector responsive to the needs of a market oriented economy*

USAID has developed the following Intermediate Results Indicators intended to measure achievement of the above-stated Strategic Objective: (See Appendix M for the Intermediate Results Indicators)

- Private bank capital as a percentage of total capital
- Non-Performing Loans as a % of total bank loans
- Return on equity
- Return on assets
- Real growth of credit to the non-financial private sector
- Credit to the non-financial private sector as a % of total credit
- Interest spread between lending and deposit rates
- Real growth of household deposits

*Specific Task Order Objectives*

The following specific TO Objectives are program specific and are intended to positively impact the SO level indicators. Impact measurement of these program objectives shall be implemented under this TO to determine linkages and impact on the level of progress made toward achieving ENI SO 1.4.

- ◆ Promote sustainable institutional development of the basic technical capacity of the Bank Supervision Department (BSD) of the National Bank of Romania (NBR), including but not limited to: (1) on-site supervision, (2) off-site supervision, and (3) on-site/off-site linkages
- ◆ Promote sustainable institutional development of effective early regulatory intervention by the BSD through informal and formal supervisory responses and enforcement mechanisms
- ◆ Promote sustainable institutional development of the NBR's problem bank resolution capacity and assist in implementation of problem bank resolutions, including but not limited to assisting: (1) in the resolution of individual banks, and (2) in the institutional development of the NBR's legal and policy framework for problem bank resolution
- ◆ Promote the increased public and regulatory transparency of the banking sector through: the promotion and institutional development of internationally based bank accounting standards and bank regulatory reporting, and outreach training and seminars and the development of public information capacity for the BSD
- ◆ Promote sustainable institutional development of the Legal Department of the NBR and the legislative and regulatory framework for the efficient regulation of the Romanian banking sector.
- ◆ Promote the organizational and technical efficiency of the BSD and the NBR generally through (1) strategic implementation of donor provided and NBR funded bank supervision training and (2) assistance to the NBR for implementation of its strategic plan and mission statement
- ◆ Promote broad and fair access to credit.
- ◆ Promote the implementation of crosscutting anti-corruption and anti-money laundering initiatives.
- ◆ Promote the integration of the bank supervision program with other USAID Economic Reform Programs for Romania and the accomplishment of USAID Romania's Strategic Objectives relevant to the banking sector.

- ◆ Initiate trans-regional and international linkages and partnerships between the NBR and other bank regulatory bodies, within the Central and East European Region and globally, by fostering exchange of information and experiences.
- ◆ Collect data on Strategic Objective and Program Objective Indicators and analyze progress toward Objectives

### **Contract End Report**

The appendices of this contract end report are structured to highlight and expand on the eleven specific Task Order Objectives, which were program specific and intended to positively impact the SO level indicators. Each Task Order Objective will be elaborated through a short narrative concerning the development of the objective throughout the performance of the contract. Documentation will be presented, which supports the achievement of each objective will follow the narrative and demonstrate the role, which the USAID provided advisors have played in ensuring their achievement.

The referenced contract period has been one of remarkable change in the supervisory process of the National Bank of Romania. Structural changes within the central bank as well as changes to the board of directors have created a paradigm shift in supervisory treatments. When confronted with problem financial institutions, difficult economic conditions, political instability, and corrupt banking practices, only strong political will can prevail in bringing about systemic change.

The executive management of the National Bank of Romania has ably demonstrated the will to overcome the difficulties encountered in the past. Armed with the banking laws enacted in 1998 and the subsequently developed Norms and Regulations, the NBR has boldly stepped to the forefront in creating a transparent banking system in Romania. Bowing to the pressure of the multi-laterals, the Government of Romania through the expertise of the NBR resolved the failure of the country's largest bank "Bancorex" by transferring the non-performing assets to the Agency for the Recovery of Banking Assets and merging the residue with the strong "Romanian Commercial Bank". The entire transaction was performed in a manner, which maintained consumer confidence and did not diminish the country's ability to service its external debt.

As discussed in the analysis of performance indicators at specific Task Order 11, consumer confidence in the banking system as evidenced by deposit levels has declined since the beginning of this program period. Other issues such as the lack of availability of loans for individuals and small and medium enterprises continue to delay the growth of the economy. The shock of the failure of the nation's largest bank coupled with the subsequent bankruptcy of three other small private financial institutions could have created a crippling systemic crisis, without the careful planning and steady calming influence of the NBR.

Both 1999 and 2000 are years of hard choices for the Romanian government. During this time, the National Bank of Romania has often been the most visible arm of the government in making these difficult decisions. The NBR has acted with firm decisiveness and flexibility as conditions have warranted. What follows below and that which is included in greater detail in the Appendices are descriptions of the role that the USAID funded advisory team has played in supporting the achievements of the NBR supervision team.

### **III. PROJECT TEAM**

Technical Assistance under this Task Order commenced April 1, 1999. The technical assistance program was a continuation of a prior Omnibus B Task Order. The technical assistance program was originally designed for two resident advisors (problem bank and bank supervision) supported by short-term experts, and the structure remained unchanged for Phase II. The advisory team remained the same until May 1999 when the bank supervision advisor offered his resignation as a resident after two years in country. The replacement bank supervision resident was put into place at the end of September 1999.

The Team Structure is as follows:

Ms. Kathryn Woolford, Problem Bank Resident Advisor  
Mr. John Ewald, III, Bank Supervision Resident Advisor

Ms. Lori Bittner Yerzyk, Project Manager- Washington, DC

Short Term Advisors: Mr. Dan Luczak, Ms. Susan Ballinger, Mr. Bob Clarke, Ms. Lori Bittner Yerzyk  
Mr. Alain Abejdid, Mr. Kenneth Walker, Mr. Craig Benson, and Mr. Alan Whitney

#### **IV. TANGIBLE RESULTS AND BENCHMARKS**

The Tangible Results as outlined in the Task Order are reasonable. During Phase I, supervisory tools such as policies and procedures manuals were developed and presented to the NBR. Going forward, the review, revision and full implementation must be achieved. Our technical assistance program will focus on working closely with NBR personnel to achieve the above Results. Historically, technical assistance was hampered by NBR/BSO management's unwillingness to allow access to personnel and activities. The BSD Deputy Governor, appointed year-end 1998, has demonstrated a strong commitment to strengthening supervision.

The Benchmarks as outlined in the Task Order are realistic; however, achievement will depend on BSD management's needs and priorities. See Benchmarks **Appendix A**. During the first quarter ending June 30, 1999, the priorities of the BSD shifted which has resulted in not all Benchmarks being achieved in the time frame as planned. The BSD requested our assistance in the 'restructuring' of two State-Owned Banks, Bancorex and Banca Agricola. These restructures are requirements of the World Bank and International Monetary Fund. Providing assistance with regard to the resolution of these two institutions has been a significant focus of both resident and short term advisors during the summer and fall of 1999, however, during the last quarter of 1999 and the first half of 2000 significant progress was made in the achievement of benchmarks.

#### **ACTIVITIES DURING THE PROJECT**

##### Financial/Economic/Legal Highlights

The period of the project from May 1999 until July 2000 was a time of significant change in the economy of Romania. The European Union approved the start of negotiations with the country of Romania for accession into the group of European states. The Governor of the National Bank of Romania became Prime Minister. The Government of Romania met all of the requirements to meet the IMF accord and money was transferred to the National Bank of Romania under this agreement. Inflation declined significantly from the high of 150 in 1997 to YE 1999 of 45%. Romania met all of its debt obligations, external and internal.

Two majority state owned banks were privatized – Romanian Development Bank and Banc Post. A third majority state owned bank, Bancorex, was resolved through merger with Romanian Commercial Bank. The privatization of two majority state owned banks – Romanian Commercial Bank and Banca Agricola commenced and the commercial bank system improved significantly during the period under review.

The National Bank of Romania was restructured during 1999, with important changes in supervision. After the enactment of the laws on banking, bank bankruptcy, and the National Bank of Romania, improvement was made in bank regulation with strengthening in licensing and capital adequacy and provisioning. One of the most important changes was in the development of an off-site supervision program which made a major improvement in the supervision of banks by the National Bank of Romania bank supervision department.

None of the above would have been possible without the superior effort of Governors Mugur Isarescu and Emil Ghizari, Vice Governor Mihai Bogza, Mr. Nicolae Cinteza – Director of Supervision, Mr. Adrian Cosmescu – Deputy Director of Supervision, and the section chiefs of the Bank Supervision department, Mrs. Elena Georgescu, Mrs. Lucretia Paunescu, Mr. Viorel Mehedintu, and most specifically Mrs. Rodica Popa, Chief of the Analytic Section of the Bank Supervision Department who developed the Early Warning System.

Challenges ahead include the development of a regulation and supervision program for credit cooperatives, the further improvement of the commercial banking sector, and the continued improvement of skills and experience in the bank supervision department.

### Tangible Results

1. An on-site, *on-the-job training program* will be developed and delivered in a *pilot program in six banks*.

More than six banks were visited on site in on-the-job training exercises. Four were visited during the Foreign Exchange dealing and trading exercise with Mrs. Susan Ballinger, two were visited as part of the problem bank assistance program, and a seventh was visited during the preparation of the off-site, early warning system for testing.

2. The BSD will have *tested and modified on-site policy and procedures inspection manual* pursuant to a comprehensive formalized process which will have been implemented.

The original goal of having all selected manual segments fully implemented by 30 June 2000 was ambitious. As of this contract end, all selected manual segments have been reviewed and segments are in some stage of completion. At this time, Examination Planning and Control and Foreign Exchange are completed and implemented as part of the examination process. Continued training is needed to improve the knowledge of the specialists selected by the bank. It became evident that the original plan was ambitious for completion by the end of June 2000, when the NBR Supervision Department declared that all banks would be examined on a one-year cycle and later in the year put forward the Emergency Ordinance on Credit Cooperatives. However, working with the capacity constraint, the entire manual segment project for implementation is at some state of completion.

3. The bank supervision authority will have *tested and modified standardized documents and communications techniques relating to on-site examinations* pursuant to a comprehensive formalized process which will have been implemented.

The Bank Supervision Division of the National Bank of Romania has developed a standard examination document, which is continuing to be revised under the supervision of the new general director of supervision. The examination report has been expanded to include ratio pages similar to those calculated by the new Early Warning System in order to verify and validate the EWS data. While the standardized report is finalized, it has not been approved for use in all examinations by the Board of Directors of the National Bank of Romania.

4. The BSD will have *developed risk profiles for the largest supervised banks* and will have implemented the methodology to identify systemic risks in the banking sector, utilizing that analysis to focus inspection resources on critical inspection tasks.

The new Early Warning System is the first step in developing risk profiles for commercial banks. This process will be part of the ongoing revision of the examination manual and the risk profile development will be the focus of the resident advisors. The Bank Ratings and Early Warning system were made public to banks and the press during the Bank Supervision Seminars held on 12 June 2000 for bankers and on 13 June for the press. This is view as an important step toward transparency.

5. The bank supervision authority will have *examined those banks scheduled for on-site examination* during the period of the Task Order and communicated final reports of inspection to the bank's management.

The target for 2000 is that all banks will be examined within 12 months. As of end-June of the current year, 17 banks had been examined with four more in progress. For 1999, 24 banks were examined. As of year-end 1999 there were 35 banks within the system. At the current supervision activity pace all banks will be the subject of a supervisory action during 2000 as projected by the National Bank of Romania.

6. *Inspectors will be able to professionally communicate with bank management*, thereby increasing the soundness and efficiency of the banking community by increasing awareness of regulatory requirements and supervisory philosophies. *A formal mechanism for banking community input into proposed policy and regulatory changes will be established.*

The 12 June 2000 Bank Supervision Seminar and the 13 June 2000 Bank Supervision Seminar for the Press were considered to be quite successful in getting information to the banks and to the press about the supervision process and increasing transparency in the supervision process. One of the positive offshoots of the seminar was a strong recommendation from the head of public relations of the Prime Minister that such seminars should be held on a regular basis due to their apparent efficacy.

This type of communication encourages more communication and a heightened degree of cooperation between supervision and bank management. The new bank supervision management is much more effective in communicating with the commercial banks. Many more bank contacts are taking place between the supervision department and the management and staff of the commercial banks.

Supervisors who have had opportunities to observe examination activities with Federal Deposit Insurance Corporation examination team have remarked about the relationship between examiners and banks. This is a positive effect, since that observation may lead to improvement in the level of relationships between Romanian supervisors and banks.

7. *The inspection staff will have the advanced level of skills to perform an on-site inspection and off-site analysis in accordance with basic prudential regulations and a certification process identifying levels of expertise and experience of inspectors will have been implemented.*

Using both short time advisors and training in the United States, the skill level of the bank supervision staff has improved significantly during the second quarter of 2000. Thirty additional students attended Ms. Susan Ballinger's seminars on derivatives and foreign exchange. Mr. Luczak worked directly with many supervisors on the credit evaluation criteria and the credit examination process. Ms. Woolford and Mr. Ewald worked closely with the members of the Analysis department on the evaluation of banks using the Bank Rating and Early Warning system.

It is clear that during the last one and one half years there has been a most significant improvement in terms of improving and delivering an advanced skill set to the supervision department. In general, skills, knowledge and professionalism have improved.

8. *Methodology for supervisory responses will have been developed and implemented* which will enable Bank Supervision Inspectors and the Legal Department of the NBR to exercise professional judgement to effectively initiate informal and formal supervisory and enforcement mechanisms such as supervisory agreements, cease and desist orders, and civil money penalties.

During the 12 June Bank Supervision Seminar, the Progressive Enforcement Decision Matrix was formally launched. As of 1 June, the program was effectively in force, and for several months prior to the formal announcement, sanctions, fines, warning letters, and notices had been applied in conformity with the progressive enforcement process.

A manual for the use of progressive enforcement is in the process of preparation and should be finished by the end of July. This manual will cover all levels from informal to formal and will be a modification to the existing resolution guidelines, which were delivered in June of 1998.

9. The bank supervision authority will have *tested and modified its regulatory and policy framework for problem bank resolutions including mergers, acquisitions, and liquidation*. A process for refining this framework will have been implemented.

Problem bank resolutions continue to be a work in progress. During the first quarter of 2000, one bank was declared bankrupt and several were put under sanction. Capital calls were made at banks where the level of capital was deemed insufficient to cover existing and potential losses. One of the major problems in problem bank resolution is the lack of funds available in the deposit guarantee fund.

Since the control of the budget is a serious issue under close scrutiny by the IMF, it is difficult to force problem banks into failure when the only remedy for the payment of insured deposits will cause a direct drain on the budget. In this case the IMF and the World Bank appear to want conflicting objectives to be met. Either the budget must hold its integrity or the banking system must be strengthened by closing problem institutions. One or the other can happen, but since an excessive amount of money would have to be set aside to pay for insured depositors, the alternative is to nurse the problem banks along with sanctions and enforced special supervision or special administration until funds sufficient to cover insured depositors is accumulated in the fund. Problem bank resolution is conditioned by the resources of the existing financial system and the ability of the budget to cover insured deposits.

10. *Inspectors will receive comprehensive classroom, on-the-job, and US based training* which will be integrated and strategically delivered to achieve the greatest amount of learning reinforcement and integration of skills into the BSD and NBR's mission statements and strategic plans.

Thirteen positions in Federal Reserve Bank courses have been granted to the NBR for the calendar year 2000. These classroom-training exercises will be enhanced by participation in FDIC examination activities subsequent to the courses attended. Eleven Romanian bank supervision professionals have been selected to fill these positions and are in the process of attending these classes through the summer. As of the end of July, six supervisors will have attended the Fed training classes and observed FDIC bank examinations in progress. The bank examination observation opportunity is one of the high points of the project. It makes clear to the Romanian examiners that the processes and procedures recommended by the resident and short time advisors are completely in line with commonly used practices in the US, where bank examination has a long and successful tradition.

Ms. Ballinger held a three-day foreign exchange class during the first quarter. Additionally, Mr. Dan Luczak held a five-day class on Examination Planning and Control. The targeted audience for the FX class was examiners and the EPC class target was section chiefs. Further, three supervisors were selected to be trained as specialists in foreign exchange. These three participated in on-site visitations with Ms. Ballinger during the first quarter and are in the process of training to be trainers in up coming foreign exchange classes.

11. *Inspectors who received training in the U.S. will develop reference materials and case studies for the BSD* and hold seminars for the NBR bank supervision staff to transfer information and skills.

The NBR supervisors who have attended training are very cooperative in sharing information that they acquire during US based training with their colleagues. The most outstanding effect of the US based training was the development of the Report of Examination, which is based on the FDIC ROE, and the development of the Early Warning System. Future stateside training is hoped to bring additional value to the supervision department. One of the many positive aspects of the US based training is that supervisors bring back a wealth of print material on supervision. Another positive aspect is that during the examination



activities the Romanian Bank Supervisors are able to observe bank examiners of long experience working in harmony with bankers. The relationship between bankers and supervisors is improving in Romania due in some small part to this experience. During the Federal Reserve courses, the Romanian Bank supervisors make contacts with supervisors from many different countries.

12. *The Advisors will have assisted the NBR in achieving all relevant World Bank and IMF conditionalities.*

Since it has long been the practice of the advisors to prepare translations of all regulations and normatives, the NBR supervision department has used this practice to the ends of reflecting the NBR efforts to meet World Bank and IMF requirements. Also, the NBR has requested the assistance of the advisors to work with the supervision department on updating the IMF on the progress of the Banca Agricola restructure effort.

An IMF Senior Policy Advisor on Banking Supervision worked at the NBR on an intermittent basis after the first quarter of 2000. His tasks as defined by the Vice Governor of the NBR included a review of the bank bankruptcy law, a review of other legislation and regulations in force, a review on the draft foreign exchange regulation, and a review of the Banca Agricola liquidation scenario prepared by the supervision department.

At the request of the Vice-Governor, the USAID advisors provided the IMF Senior Policy advisor with translations of all pertinent laws and regulations for the execution of his tasks. In addition, the regulation department requested assistance in the translation of the draft FX regulation in order to provide it to the IMF advisor. Further, the NBR supervision department worked with the advisors in order to prepare a merger/liquidation/privatization scenario for the IMF advisor to review.

The advisory team worked closely with the NBR, the US Treasury Advisors to the Ministry of Finance, IMF and World Bank during the resolution of Bancorex. The team with additional short term advisors giving support in specific areas worked on all aspects of the resolution on a daily basis.

## APPENDICES

- A- Status of Benchmarks and Tasks**
- B - Implementation Plan**
- C - Promote sustainable institutional development of the basic technical capacity of the Bank Supervision Department (BSD) of the National Bank of Romania (NBR), including but not limited to: (1) on-site supervision, (2) off-site supervision, and (3) on-site/off-site linkages**
- D - Promote sustainable institutional development of effective early regulatory intervention by the BSD through informal and formal supervisory responses and enforcement mechanisms**
- E - Promote sustainable institutional development of the NBR's problem bank resolution capacity and assist in implementation of problem bank resolutions, including but not limited to assisting: (1) in the resolution of individual banks, and (2) in the institutional development of the NBR's legal and policy framework for problem bank resolution**
- F - Promote the increased public and regulatory transparency of the banking sector through: the promotion and institutional development of internationally based bank accounting standards and bank regulatory reporting, and outreach training and seminars and the development of public information capacity for the BSD**
- G - Promote sustainable institutional development of the Legal Department of the NBR and the legislative and regulatory framework for the efficient regulation of the Romanian banking sector.**
- H - Promote the organizational and technical efficiency of the BSD and the NBR generally through (1) strategic implementation of donor provided and NBR funded bank supervision training and (2) assistance to the NBR for implementation of its strategic plan and mission statement**
- I - Promote broad and fair access to credit.**
- J - Promote the implementation of crosscutting anti-corruption and anti-money laundering initiatives.**

- K - Promote the integration of the bank supervision program with other USAID Economic Reform Programs for Romania and the accomplishment of USAID Romania's Strategic Objectives relevant to the banking sector.**
- L - Initiate trans-regional and international linkages and partnerships between the NBR and other bank regulatory bodies, within the Central and East European Region and globally, by fostering exchange of information and experiences.**
- M - Collect data on Strategic Objective and Program Objective Indicators and analyze progress toward Objectives**

## **A**

### **Status of Benchmarks and Tasks**

For purposes of this Task Order the following dates are used:

*April, May, June 1999- First Three Months  
July, August, September 1999- First Six Months  
October, November, December 1999- First Nine Months  
January, February, March 2000- First Twelve Months  
April, May, June 2000- First Fifteen Months*

**IMPLEMENTATION PLAN: FIRST MONTH BENCHMARK**

One month after formal execution of the contract the Advisors will update the Bank Supervision Assessment Matrix (BSAM) to determine the overall status of bank supervisory capacity. Based on the update and the following Benchmarks, the Advisors shall develop an Implementation Plan for this Task Order.

The Implementation Plan shall provide for flexibility to provide assistance to the NBR on bank supervision related issues as requested by the NBR and approved by USAID, including but not limited to, coordination of bank supervision with supervision of capital markets and insurance activities, bank licensing, deposit insurance, and monetary policy. The Implementation Plan shall be discussed with and approved by Senior NBR officials and USAID Bucharest and Washington. The Implementation Plan shall be represented in a Gantt or comparable timeline chart.

  X   Met             Partially Met             Not Met

**PROMOTE SUSTAINABLE INSTITUTIONAL DEVELOPMENT OF THE BASIC TECHNICAL CAPACITY OF THE BANK SUPERVISION DEPARTMENT (BSD) OF THE NATIONAL BANK OF ROMANIA (NBR)**

**ON-SITE SUPERVISION**

**THREE MONTH BENCHMARK**

The advisors will identify six (6) banks to participate in a pilot on-site, on-the-job training program (On-Site Pilot) and advise USAID on the selections.

The advisors will participate in at least one on-site examination, in connection with the On-Site Pilot, identify skills gaps among the inspection team, provide detailed written feedback to the inspection team, and provide on-the-job training and/or identify appropriate class room training.

One Classroom Training Program will be developed and delivered on at least one chapter of the on-site manual, substantive content to be determined pursuant to the Implementation Plan.

The advisors will facilitate at least one meeting of the Working Group for On-site Policies and Procedures (On-Site Group) initiated under Phase I and initiate planning for the comprehensive review of On-Site Pilot results due at the FIFTEEN MONTH BENCHMARK. This shall include review of preliminary findings from testing of the on-site manual developed in Phase I of the Program and testing of workpaper formats.

  X   Met      Partially Met      Not Met

#### **SIX MONTH BENCHMARK**

The advisors will participate in at least one additional on-site examination, in connection with the On-Site Pilot, identify skills gaps among the inspection team, provide detailed written feedback to the inspection team, provide on-the-job training and identify appropriate classroom training.

One Classroom Training Program will be developed and delivered, substantive content to be determined pursuant to the Implementation Plan.

The advisors will facilitate at least one additional meeting of the Working Group for On-site Policies and Procedures (On-Site Group) initiated under Phase I and continue planning for the comprehensive review of On-Site Pilot results due at the FIFTEEN MONTH BENCHMARK. This shall include continued review of preliminary findings from testing of the on-site manual developed in Phase I of the Program and testing of workpaper formats.

  X   Met             Partially Met             Not Met

#### **NINE MONTH BENCHMARK**

The advisors will participate in at least two additional on-site examinations, in connection with the On-Site Pilot, identify skills gaps among the inspection team, provide detailed written feedback to the inspection team, and provide on-the-job training and/or identify appropriate class room training.

One Classroom Training Program will be developed and delivered, substantive content to be determined pursuant to the Implementation Plan.

The advisors will facilitate at least one additional meeting of the Working Group for On-site Policies and Procedures (On-Site Group) initiated under Phase I and continue planning for the comprehensive review of On-Site Pilot results due at the FIFTEEN MONTH BENCHMARK. This shall include continued review of preliminary findings from testing of the on-site manual developed in Phase I of the Program and testing of workpaper formats.

  X   Met             Partially Met             Not Met

#### **TWELVE MONTH BENCHMARK (ONE YEAR)**

The advisors will participate in two additional on-site examinations, in connection with the On-Site Pilot, identify skill gaps among the inspection team, provide detailed written feedback to the inspection team, and provide on-the-job training and/or identify appropriate classroom training.

One Classroom Training Program will be developed and delivered, substantive content to be determined pursuant to the Implementation Plan.

The advisors will facilitate at least one additional meeting of the Working Group for On-site Policies and Procedures (On-Site Group) initiated under Phase I and continue planning for the comprehensive review of On-Site Pilot results due at the FIFTEEN MONTH BENCHMARK. This shall include continued review of preliminary findings from testing of the on-site manual developed in Phase I of the Program and testing of workpaper formats.

Initiate formal comprehensive review of On-Site Pilot results, including complete review of all on-site policies and procedures, analysis of pilot findings, success of ongoing training conducted during pilot, and proposed modifications to substantive supervisory materials and if needed to pilot approach for next phase.

  X   Met             Partially Met             Not Met

**FIFTEEN MONTH BENCHMARK (END)**

Formal Review by the On-Site Group shall be completed of a detailed analysis of the On-Site Pilot results including modifications to on-site inspection manual, policies and procedures, workpaper formats, analysis of skills gaps and modifications to training materials.

Comprehensive classroom training for all on-site inspection staff in all modifications mandated pursuant to the Formal Review of On-Site Pilot Results shall be developed with a time frame for such training to occur. Training shall focus on the need for a deliberative and transparent approach to making changes to the on-site supervisory framework so that flexibility is maintained during rapid regulatory development while avoiding haphazard changes that reduce transparency, increase uncertainty and lead to a reactive rather than proactive supervisory approach.

☐ Met      ☒ Partially Met      ☐ Not Met

**OFF-SITE SUPERVISION**

**SIX MONTH BENCHMARK**

Classroom Training will be developed and delivered on at least one subject related to off-site analysis, substantive content to be determined pursuant to the Implementation Plan. Synergies between the On-site Classroom Training program shall be achieved.

The Advisors shall assist in the development of risk profiles for at least three (3) banks and provide guidance on development of supervisory strategies to address risks noted in banks. The advisors will provide on-the-job training and written feedback to all off-site inspectors involved in these three (3) risk profiles.

☒ Met      ☐ Partially Met      ☐ Not Met

**NINE MONTH BENCHMARK**

Classroom Training will be developed and delivered on at least one additional subject related to off-site analysis, substantive content to be determined pursuant to the Implementation Plan. Synergies between the On-site Classroom Training program shall be achieved.

The Advisors shall assist in the development of risk profiles for at least three (3) additional banks and provide guidance on development of supervisory strategies to address risks noted in banks. The advisors will provide on-the-job training and written feedback to all off-site inspectors involved in these three (3) risk profiles.

☒ Met      ☐ Partially Met      ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

Classroom Training will be developed and delivered on at least one additional subject related to off-site analysis, substantive content to be determined pursuant to the Implementation Plan. Synergies between the On-site Classroom Training program shall be achieved.

The Advisors shall assist in the development of risk profiles for at least three (3) additional banks and provide guidance on development of supervisory strategies to address risks noted in banks. The advisors will provide on-the-job training and written feedback to all off-site inspectors involved in these three (3) risk profiles.

☒ Met      ☐ Partially Met      ☐ Not Met

#### **ON-SITE/OFF-SITE LINKAGES**

##### **THREE MONTH BENCHMARK**

Four (4) Senior on-site inspectors shall be assigned to a portfolio of banks and shall be provided with basic training on how to effectively ensure that inspection issues are appropriately addressed; how to research any questions raised by bank management, and how to coordinate activities as appropriate with the off-site inspectors.

The Advisors shall analyze the planned scope and frequency of examinations and make a written recommendation on the adequacy of the schedule based on perceived levels of risk.

☒ Met      ☐ Partially Met      ☐ Not Met

##### **SIX MONTH BENCHMARK**

Senior on-site inspectors assigned to a portfolio of banks at the THREE MONTH BENCHMARK shall be provided with on-the job training and written feedback on how effectively they ensured that inspection issues are appropriately addressed; researched any questions raised by bank management, and coordinated activities with off-site inspectors.

These senior on-site inspectors shall be provided with Train-the-Trainer instruction.

Four (4) additional on-site inspectors shall be assigned to a portfolio of banks.

☒ Met      ☐ Partially Met      ☐ Not Met

##### **TWELVE MONTH BENCHMARK (ONE YEAR)**

The advisors will assist the BSD in planning and resource management so that it will have examined all banks scheduled for examination within the twelve month period, utilized effective workpaper and examination formats, and delivered effective final written examination reports according to the schedule.

If the BSD fails to meet the schedule deadlines, the Advisors shall analyze the impediments and recommend methods to overcome the shortcoming.

☒ Met      ☐ Partially Met      ☐ Not Met

##### **FIFTEEN MONTH BENCHMARK (END)**

Senior off-site inspectors shall participate in the Formal Review by the On-Site Group.

On-site inspectors assigned to a portfolio of banks at the SIX MONTH BENCHMARK shall be provided with on-the job training and written feedback on how to effectively they ensured that all on-site issues are



appropriately coordinated with off-site inspectors. Senior on-site inspectors shall co-deliver this on-the-job training.

Responsibility for each financial institution shall be assigned to one or more experienced inspectors and the organizational, policy and regulatory framework for on-site/off-site integration will be developed.

**PROMOTE SUSTAINABLE DEVELOPMENT OF EFFECTIVE EARLY REGULATORY INTERVENTION BY THE BSD THROUGH INFORMAL SUPERVISORY RESPONSES AND FORMAL ENFORCEMENT MECHANISMS.**

**SIX MONTH BENCHMARK**

A Case Study shall be developed and submitted to USAID for approval based on and actual Romanian banking institutions' financial condition that will require participants to develop and defend informal supervisory responses and formal enforcement mechanisms.

Key personnel shall be selected to participate in advanced classroom training and will receive basic training in informal supervisory responses and formal enforcement mechanisms.

☒ Met      ☐ Partially Met      ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

The advisors will deliver advanced classroom training to key personnel selected for basic training provided at the SIX MONTH BENCHMARK on the policy guidelines and procedures for informal supervisory responses and formal enforcement mechanisms reinforcing lessons learned in the basic training provided at the SIX MONTH BENCHMARK. The Case Study developed at the SIX MONTH BENCHMARK shall be utilized in this advanced training.

☒ Met      ☐ Partially Met      ☐ Not Met

**FIFTEEN MONTH BENCHMARK (END)**

Based upon feedback received in the advanced classroom training, additional class room training will be developed and on the job training shall be recommended as needed.

Weaknesses in the policy and regulatory framework for formal and informal interventions shall be identified and strengthening recommendations delivered.

☒ Met      ☐ Partially Met      ☐ Not Met

**PROMOTE SUSTAINABLE INSTITUTIONAL DEVELOPMENT OF THE NBR'S PROBLEM BANK RESOLUTION CAPACITY AND ASSIST IN IMPLEMENTATION OF INDIVIDUAL PROBLEM BANK RESOLUTIONS**

**INDIVIDUAL BANK RESOLUTIONS**

As requested the Advisors will assist in restructuring and/or privatization plans for individual troubled banks, both state-owned and private, including but not limited to the preparation of due diligence assessments and asset valuations.

**SIX MONTH BENCHMARK**

Weaknesses in the policy and regulatory framework for problem bank resolution shall be identified and strengthening recommendations delivered

☒ Met      ☐ Partially Met      ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

Advisors will provide a detailed analysis of lessons learned from all assistance provided in restructuring and/or privatization plans for individual troubled banks in addition to any relevant analysis of other resolutions implemented by the NBR. Advisors will prepare a case study based on the lessons learned and develop a training course for use in connection with the Comprehensive Training to be developed at the FIFTEEN MONTH BENCHMARK for On-Site Supervision

An implementation plan for the Strengthening recommendations provided at the SIX-MONTH BENCHMARK shall be developed..

☒ Met      ☐ Partially Met      ☐ Not Met

**FIFTEEN MONTH BENCHMARK (END)**

Advisors will provide an updated analysis of lessons learned from all assistance provided in restructuring and/or privatization plans for individual troubled banks in addition to any relevant analysis of other resolutions implemented by the NBR.

An analysis of the implementation to date of the strengthening recommendations developed at the TWELVE-MONTH BENCHMARK shall be performed and recommendations made as needed to encourage full implementation.

☒ Met      ☐ Partially Met      ☐ Not Met

**INSTITUTIONAL DEVELOPMENT OF THE NBR'S LEGAL AND POLICY FRAMEWORK FOR PROBLEM BANK RESOLUTION**

**THREE MONTH BENCHMARK**

The Advisors will facilitate at least one (1) meeting of the Working Group for Problem Bank Resolutions (Problem Bank Group) initiated under Phase I. The Group shall issue a meeting summary with recommended actions to strengthen the problem bank resolution framework.

The Advisors will become familiar with the institutional and legal development of the Asset Resolution Agency (ARA) and provide the NBR BSD with any advice on how the ARA operations can be supported through effective supervisory policies.

☒ Met      ☐ Partially Met      ☐ Not Met

**SIX MONTH BENCHMARK**

The Advisors will facilitate at least one (1) additional meeting of the Working Problem Bank Group initiated under Phase I. The Group shall issue a meeting summary on progress made on recommended actions to strengthen the problem bank resolution framework made at previous meetings and shall recommend further actions.

The Advisors will remain up to date on the institutional and legal development of the Asset Resolution Agency (ARA) and provide the BSD with advice as requested on how the ARA operations can be supported through effective supervisory policies.

☒ Met      ☐ Partially Met      ☐ Not Met

**FIFTEEN MONTH BENCHMARK (END)**

The Problem Bank Working Group will begin to meet regularly and the Advisors shall serve in an advisory capacity.

The Advisors will remain up to date on the institutional and legal development of the Asset Resolution Agency (ARA) and provide the BSD with advice as requested on how the ARA operations can be supported through effective supervisory policies.

☒ Met      ☐ Partially Met      ☐ Not Met

**PROMOTE THE INCREASED PUBLIC AND REGULATORY TRANSPARENCY OF THE BANKING SECTOR**

**BANK ACCOUNTING AND REGULATORY REPORTING**

**SIX MONTH BENCHMARK**

The Advisors will meet with the Head Accountant of the NBR and the Director for Off-site Supervision and identify the top priorities for strengthening accounting and reporting based on the detailed recommendations developed in Phase I.

☐ Met      ☒ Partially Met      ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

Priority recommendations for strengthening accounting and regulatory reporting based on the detailed recommendations developed in Phase I shall be developed and a pilot training program for both inspection staff and members of the banking community on the recommended accounting and reporting framework will be delivered.

☐ Met      ☒ Partially Met      ☐ Not Met

**OUTREACH AND PUBLIC INFORMATION**

**SIX MONTH BENCHMARK**

The Advisors will hold two (2) public Roundtable Sessions with the commercial banking community to deliver an update on all regulatory developments and provide training in a selected topic to be determined by the Implementation Plan.

The Advisors will provide the NBR with a preliminary recommendation on a framework for consistently issuing draft regulations for comment by the commercial banking community, and for improving transparency in the publication and dissemination of final regulations or policies.

☒ Met ☐ Partially Met ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

The Advisors will reach agreement with the NBR on the preliminary recommendation for a framework for consistently issuing draft regulations for comment by the commercial banking community, and for improving transparency in the publication and dissemination of final regulations or policies. A plan and timeframe for implementation of the agreed upon framework shall be finalized.

☒ Met ☐ Partially Met ☐ Not Met

**FIFTEEN MONTH BENCHMARK (END)**

The framework for consistently issuing draft regulations for comment by the commercial banking community, and for improving transparency in the publication and dissemination of final regulations or policies developed under the twelve month benchmark will be communicated to the banking community for comment.

☒ Met ☐ Partially Met ☐ Not Met

**PROMOTE SUSTAINABLE INSTITUTIONAL DEVELOPMENT OF THE LEGAL DEPARTMENT OF THE NBR AND THE LEGAL FRAMEWORK FOR THE EFFICIENT REGULATION OF THE ROMANIAN BANKING SECTOR**

**SIX MONTH BENCHMARK**

The advisors will identify needed legislative, regulatory or policy level drafting and coordinate assistance with EU Phare. At least two coordination meetings with Phare representatives or legal advisors will be held.

☒ Met ☐ Partially Met ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

One trip for short-term legal assistance will be provided. The S/T Banking attorney will have a series of meetings with Phare legal advisors and joint assistance will be provided on needed legislative and regulatory amendments necessary to accomplish harmonization with EU Banking Directives and international banking standards.

The S/T Banking Attorney will provide:

One public Seminar on a selected topic related to legal developments. Efforts shall be made to include Members of Parliament

One internal training course for the NBR Legal Department

☐ Met ☐ Partially Met ☒ Not Met

**FIFTEEN MONTH BENCHMARK (END)**

One additional trip for short-term legal assistance will be provided. The S/T Banking attorney will have follow-up meetings with Phare legal advisors and continued joint assistance will be provided on needed legislative and

regulatory amendments necessary to accomplish harmonization with EU Banking Directives and international banking standards.

☐ Met ☒ Partially Met ☐ Not Met

The legal department of the National Bank of Romania has not requested assistance. The department charged with developing rules and regulations pertaining to all central bank matters of interest, including bank supervision, has received assistance as requested. All assistance provided to this area, including acting as liaison with the EU Directorate has focused on harmonization.

**PROMOTE THE ORGANIZATIONAL AND TECHNICAL EFFICIENCY OF THE BSD AND THE NBR GENERALLY THROUGH (1) STRATEGIC IMPLEMENTATION OF DONOR PROVIDED AND NBR FUNDED BANK SUPERVISION TRAINING AND (2) ASSISTANCE TO THE NBR FOR IMPLEMENTATION OF ITS STRATEGIC PLAN AND MISSION STATEMENT**

**THREE MONTH BENCHMARK**

The project manager in Washington will design, in coordination with the resident advisors and USAID, a U.S. based training program and internship at one of the U.S. bank regulatory agencies (Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), The Office of Thrift Supervision (OTS) or a Federal Reserve Bank (Fed)). The training/internship will consist of three primary components:

Approximately three weeks of standardized classroom training at one of the regular training sessions for U.S. bank examiners at either the OCC, FDIC or Fed;

Approximately two weeks of participating in an actual bank examination of a small or community U.S. bank; and,

Approximately one week internship at one of the U.S. regulatory agencies to gain understanding of how organizational, management, personnel, external and internal communications are handled, how training is accomplished and how supervisory policy is developed.

The advisors, in coordination with USAID, will identify 4 senior inspection staff candidates from BSD to participate in the above described training/internship program in the U.S.

☒ Met ☐ Partially Met ☐ Not Met

**SIX MONTH BENCHMARK**

An updated analysis and recommendations for implementation of the BSD and NBR's mission statements and strategic plans shall be completed and discussed with NBR Senior Management.

A Core Group of inspectors shall be selected to serve as training coordinators and shall have received comprehensive train-the-trainer training.

A plan for inspector certification shall be designed and approved by the NBR. The Core Group shall be responsible for implementation of the plan.

☒ Met ☐ Partially Met ☐ Not Met

---

**FIFTEEN MONTH BENCHMARK (END)**

All four senior inspection staff participants in U.S. Training will have completed their courses and internships. The training will be linked to Romania based training and incorporated into the strategic plan and mission statement for the BSD and the NBR generally.

The updated analysis and recommendations for implementation of the BSD and NBR's mission statements and strategic plans shall be completed. The inspector certification plan shall be a core focus of institutional strengthening of the BSD.

Staff receiving training in the U.S. will develop reference materials and a case study for the BSD and hold seminars to transfer information and skills.

The training will be linked to Romania based training and incorporated into the strategic plan and mission statement for the BSD and the NBR generally and the formal inspector certification plan.

☒ Met      ☐ Partially Met      ☐ Not Met

**PROMOTE BROAD AND FAIR ACCESS TO CREDIT**

**THREE MONTH BENCHMARK**

A survey will be developed and recommended to the National Bank for implementation in all commercial banks to determine what strategic steps are needed to broaden access to credit in a safe and sound manner (Credit Access Survey).

☒ Met      ☐ Partially Met      ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

The Credit Access Survey shall be completed, results analyzed and recommendations made.

☒ Met      ☐ Partially Met      ☐ Not Met

**FIFTEEN MONTH BENCHMARK (END)**

An implementation plan for the recommendations from the Credit Access Survey shall be developed.

☒ Met      ☐ Partially Met      ☐ Not Met

**PROMOTE THE IMPLEMENTATION OF CROSS-CUTTING ANTI-CORRUPTION AND ANTI-MONEY LAUNDERING INITIATIVES.**

**SIX MONTH BENCHMARK**

The advisors shall meet with relevant USG, NBR, and GOR officials and initiate a dialogue on how anti-corruption and anti-money laundering initiatives can be integrated into the bank supervision program.

A plan to establish a Financial Sector Anti-Corruption Working Group (FSACWG) shall be developed with the broadest possible participation from the financial community encouraged. Special emphasis shall be placed on integrating the US Embassy's MPP into the working group.

☐ Met ☐ Partially Met ☒ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

To the extent that the FSACWG has met and recommended action to combat financial sector crime and corruption, the advisors will work with the NBR to develop policies and procedures to assist in the detection of financial sector crime and corruption during on-site inspections.

☐ Met ☒ Partially Met ☐ Not Met

**PROMOTE THE INTEGRATION OF THE BANK SUPERVISION PROGRAM WITH (1) OTHER USAID ECONOMIC REFORM PROGRAMS FOR ROMANIA AND (2) THE US EMBASSY'S MPP WORKING GROUPS RELATED TO THE FINANCIAL SECTOR**

**THREE MONTH BENCHMARK**

The Advisors shall meet with relevant USAID advisors including FSVC and compile a brief list of potential joint activities.

☒ Met ☐ Partially Met ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

At least two joint activities between the contractor and another USAID assistance provider shall be completed.

☐ Met ☐ Partially Met ☒ Not Met

**FIFTEEN MONTH BENCHMARK (END)**

At least one additional joint activity between the contractor and another USAID assistance provider shall be completed.

☐ Met ☐ Partially Met ☒ Not Met

**INITIATE TRANS-REGIONAL AND INTERNATIONAL LINKAGES AND PARTNERSHIPS BETWEEN THE NBR AND OTHER BANK REGULATORY BODIES, WITHIN THE CENTRAL AND EAST EUROPEAN REGION AND GLOBALLY, BY FOSTERING EXCHANGE OF INFORMATION AND EXPERIENCES**

The advisors shall keep the NBR informed of planned USAID bank supervision conferences and coordinate scheduling to ensure that senior level officials may attend. Two BSD staff shall be selected to attend USAID bank supervision conferences to be held in the region in July and September.

The advisors shall become informed about all potential regional linkages and work with USAID to facilitate NBR involvement. A list of potential linkages shall be compiled.

☒ Met ☐ Partially Met ☐ Not Met

**TWELVE MONTH BENCHMARK (ONE YEAR)**

At least two activities with regional linkages shall be completed.

☐ Met      ☒ Partially Met      ☐ Not Met

**COLLECT DATA ON STRATEGIC OBJECTIVE AND PROGRAM OBJECTIVE INDICATORS AND ANALYZE PROGRESS TOWARD OBJECTIVES**

**SIX MONTH BENCHMARK**

A concise report shall be prepared with available data on all indicators and an analysis of any significant developments. Impact assessment shall be completed with analysis of how Program Objectives and Tangible Results have impacted ENI Intermediate Indicators and Strategic Objective 1.4

☒ Met      ☐ Partially Met      ☐ Not Met

**FIFTEEN MONTH BENCHMARK (END)**

A concise report shall be prepared with available data on all indicators and an analysis of any significant developments. Impact assessment shall be completed with analysis of how Program Objectives and Tangible Results have impacted ENI Intermediate Indicators and Strategic Objective 1.4.

☒ Met      ☐ Partially Met      ☐ Not Met



## **B**

### **Implementation Plan**

**Narrative**

**BSAM**

**Proposed Plan of Action**

## **Narrative:**

The Implementation portion of the program began with the evaluation of the supervisory process and environment as of the first month of the phase. This evaluation performed in the form of the Bank Supervision Assessment Matrix (BSAM) identified progress from the previous phase as well as assessed further needs.

Subsequent to the completion of the BSAM, the two resident advisors prepared a draft work plan for the implementation of the goals of the contract. This plan was flexible due to the rapid pace of changes taking place both in the commercial banks and in the structure and operation of the Bank Supervision Department. This draft plan was approved in concept by the CTO and it was put into place.

## **C**

**Promote sustainable institutional development of the basic technical capacity of the Bank Supervision Department (BSD) of the National Bank of Romania (NBR), including but not limited to: (1) on-site supervision, (2) off-site supervision, and (3) on-site/off-site linkages**

### **Narrative**

#### **On-Site**

**Training Needs Questionnaire  
Examiner Training and Development Policy  
Handbook for Bank Examiners**

#### **Off-Site**

**Bank Rating and Early Warning System  
CAMEL**

#### **On-Site/Off-Site Linkages**

**NBR Report of Examination**

## **Narrative:**

### **On-Site Supervision**

The advisory team selected several segments of the existing bank supervision manual for adoption by the BSD of the NBR during 1999/2000 program period. This adoption was performed in four phases i.e. modification, adoption, training, and implementation. This process continues to be in progress as of the end of this phase of the program. Sections on Examination Planning and Control, Foreign Exchange, Credit, Asset/Liability management and the Responsibilities of Bank Directors and Management have been adopted and implemented to some measure.

In a program that has been tested in other countries, the NBR BSD management selected staff members to be trained as specialists in specific manual segments. These specialists worked with the advisors in going through the manual segments sentence by sentence to modify the supervision practice theory therein to meet the current needs of the banking supervision department. While the changes were not significant in most cases, the most important part of this process was to give the specialists, and therefore the NBR, ownership of the final product. Also, this formed a strong foundation of understanding of the manual segment for those involved in the modification process. The trained specialists, then went into the field to test the manual segments in live bank situations. The advisors joined the specialists in the field to give support as necessary. Subsequently, classroom training was held on each manual segment thus processed. This classroom training involved the previously trained specialists who were able to relate their experiences during the field test. The connection between the classroom training and the field experiences gave a strong reinforcement to the overall effect of the training.

Mr. Dan Luczak, a short time advisor with expertise in training and development programs developed the BSD training and development policy for the NBR with the assistance of the senior BSD supervisors. This policy gives extensive guidelines in all aspects of their training and development program. Since improved human resources management is one of the objectives of the Governor of the central bank for the next year, this training and development program may be used as a model for other departments since it addresses other aspects of employee development such as employee evaluation and performance skills.

A training needs survey was conducted in the winter of 1999 to determine the training interests of the staff of the newly restructured supervision department. The senior management of the department subsequently selected staff members to participate in training at the Federal Reserve in Washington, D.C. in various subjects.

## **Off-site Supervision**

The development of the Bank Analysis and Early Warning System was a major step forward in the off-site analysis of banks operations and condition. It is currently used by the National Bank of Romania Bank Supervision Department to monitor the situations of banks on a monthly basis. Its development has been the indirect result of the training of one supervisor at the International Institutions Financial Analysis Course taught by the Federal Reserve. This is perhaps the most visible impact of the stateside training for Romanian Bank Supervisors. The Bank Rating and Early Warning system also introduces a form of CAMEL Rating for Romanian commercial banks.

## **On-Site/Off-Site Linkages**

While it is important to link on-site and off-site supervision, this must be done in a comprehensive manner. A global approach to the connection must be made. It is vital that the information that is reviewed and processed by the off-site supervisors be realistic and consistent. Thus, validation and verification are two of the many roles of the on-site supervisors.

Other than good communication, one of the more effective linking tools is the report of examination. During 1999/2000, the analysis section of the BSD unveiled a proposed report of examination. This document will be the glue for the two aspects of supervision at the National Bank of Romania in addition to guiding the examiners to address risk rather than transaction based supervision. As of the close of the contract, the standardized report of examination has not been adopted for use by the Board of Directors of the National Bank of Romania. This will be one of the early challenges in any follow on work with the BSD.

The institutional development of the technical capacity of the Bank Supervision Department for this program period was an extension and refinement of the Phase I program. The infrastructure was built during the previous Phase with the development and presentation of the Bank Supervision Manual. The need during this phase was to develop the NBR BSD staff's "ownership" of the manual. Therefore, short time advisors were brought in to work with a group of specialists or senior supervisory staffers who were specifically selected for work on designated manual topics.

The on-site and off-site supervision linkages were improved through the restructure of the supervision department with the inclusion of both on-site and off-site supervisors in each supervision teams. Three supervision teams were developed during the September 1999 restructure. Each team was assigned the responsibility of a group of banks and branches of foreign banks. A fourth team was developed to acquire and analyze data for the use of the supervision department management, National Bank of Romania senior management, and the bank supervision teams.

## **D**

**Promote sustainable institutional development of effective early regulatory intervention by the BSD through informal and formal supervisory responses and enforcement mechanisms**

### **Narrative**

#### **Decision matrix for Progressive Enforcement Actions**

**Sample: Bank evaluation as of 31.05.2000 on the basis of the Bank Rating and Early Warning System (CAPL)**

**Narrative:**

With the development of the Bank Ratings and Early Warning System tools were developed to apply remedial actions for banks found to be in violation of prudential norms and safety and soundness guidelines. The Decision Matrix for Progressive Enforcement Actions was developed by the supervision department. This matrix follows a prescribed path for the application of informal and formal enforcement actions.

The bank evaluations are performed on a monthly basis and as infractions are determined actions are applied according to the level of severity of the problem.

## **E**

**Promote sustainable institutional development of the NBR's problem bank resolution capacity and assist in implementation of problem bank resolutions, including but not limited to assisting:**  
**(1) in the resolution of individual banks, and (2) in the institutional development of the NBR's legal and policy framework for problem bank resolution**

### **Narrative**

### **Guidelines for Financial Institutions Rehabilitation and Resolution (FIRR)**



**Narrative:**

In order to institutionalize the enforcement action process and to standardize the application of various enforcement actions, the advisors prepared a draft manual - Guidelines for Financial Institutions Rehabilitation and Resolution(FIRR). These guidelines incorporate the banking legislative framework with knowledge and experience gained from other failed bank exercises and IMF resolution guidelines as well as information, experience, and recommendations from other regulatory bodies.

The FIRR uses a step by step process for the implementation of each informal and formal enforcement action. In most cases, it utilizes existing NBR documentation for such actions, such as sample publications in the Official Monitor of Romania. The purpose of the FIRR is to ensure consistent application of enforcement actions.

## **F**

**Promote the increased public and regulatory transparency of the banking sector through: the promotion and institutional development of internationally based bank accounting standards and bank regulatory reporting, and outreach training and seminars and the development of public information capacity for the BSD**

### **Narrative**

**Romanian Economic Daily “Worst Over for bank system” says Thomson BankWatch 18 July 2000**

**Thomson Financial BankWatch Banking System Update-Romania: Is the Worst Over? 14 July 2000**

**Agenda of 12 June 2000 Bank Supervision Seminar for Bank Directors**

**Agenda of 13 June 2000 Bank Supervision Seminar for Romanian Press Representatives**

**Romanian Banks 1998 – 2000**

**Narrative:**

At the request of the Vice-Governor of the National Bank of Romania, the advisory team assisted the Analysis Section of the BSD in the development of a public information packet on the commercial banks in the Romanian financial system. The booklet represented a two year comparison of the commercial banks using aggregate figures broken down only to show changes in the ownership structure i.e. majority state owned banks, majority domestic owned banks, and majority foreign owned banks.

The Vice-Governor initiated a series of meetings with the Romanian Bankers Association to introduce any new rules or regulations and to discuss changes in the financial system. This open forum has strengthened the role of the bankers association in the commercial banking system. This transparency on the part of the central bank has also encouraged a similar level of transparency on the part of the commercial banks.

At two seminars sponsored by the National Bank of Romania the director of the Bank Supervision Department publicly unveiled the Bank Rating and Early Warning system and the CAMPL bank rating system. He emphasized the NBR's internal use of these tools to increase its supervisory responsiveness and the BSD's goal to be pro-active in its supervision efforts.

## G

### **Promote sustainable institutional development of the Legal Department of the NBR and the legislative and regulatory framework for the efficient regulation of the Romanian banking sector.**

#### **Narrative:**

The advisory team has provided assistance to the Regulatory Division of the National Bank of Romania. This assistance has been in the form of reference documents from the European Union and research materials provided from other central and eastern European countries.

As the Regulatory department has requested assistance concerning supervisory concepts, the advisors have worked with the department representatives. They have acted as a liaison between the National Bank of Romania and the European Union General Directorates responsible for both harmonization and banking directives.

The advisory team has worked diligently throughout the year to provide English language translations of all laws and regulations for the use of the National Bank of Romania and local commercial banks. These translations have been given to the IMF and the World Bank representatives as needed to demonstrate compliance with conditionalities.

## **H**

**Promote the organizational and technical efficiency of the BSD and the NBR generally through (1) strategic implementation of donor provided and NBR funded bank supervision training and (2) assistance to the NBR for implementation of its strategic plan and mission statement**

### **Narrative**

#### **Off-Site Training program for 2000**

**Narrative:**

Donor funded training was an extensively used training tool for Bank Supervision Advisors during late 1999 and through the first three quarters of 2000. The appetite for training increased from both the staff and management levels. The effects of this type of training as seen by the creation of the Bank Early Warning and Rating System encouraged the Senior Management of the Bank Supervision Department to make more effective use of the training available.

The most efficient off-site training involved the combination classes obtained through the auspices of the Federal Reserve Board of Governors with on-site inspection actions with the Federal Deposit Insurance Corporation.

## **I**

### **Promote broad and fair access to credit.**

#### **Narrative**

#### **The Opinions of Participants of the Survey Regarding the Offer and Request of Loans for the Populace**

#### **Survey Questionnaire and results**

**Narrative:**

The Research and Publication Department of the National Bank of Romania expressed a great interest in working with the advisory team to develop a survey on the credit appetite and capacity of the Romanian commercial banks. This survey was conducted by NBR branch personnel. It produced fairly predictable results i.e. there is an appetite for borrowing on the part of individuals but the obstacles to their obtaining loans are virtually insurmountable.

Increased safety and soundness may do little for the improvement of the consumer lending environment. Improved collateral legislation and a secure comprehensive collateral registry, which would allow banks to perfect their interest in collateral may lead to increased lending. Some banks are already moving into the consumer lending sector with small installment loans and secured credit card programs, but the major proportion of loans are made to commercial companies.

Lending should improve over time. As the economy stabilizes, the attraction of investing in treasury bills will diminish. When this occurs, lending to consumers as well as commercial companies is inevitable.



**J**

**Promote the implementation of crosscutting anti-corruption and anti-money laundering initiatives.**

**Narrative**

**Law 21/1999 on the prevention and punishment of laundering money**

**Narrative:**

With the assistance of the United States Justice Department, a commission for the prevention of Money Laundering has been established. The country of Romania has enacted a law for the Prevention of Money Laundering.

The Bank Supervision Department of the National Bank of Romania, with the support of the advisory team, provides assistance to the Anti-Money Laundering Commission within the limits established for banking secrecy.

## K

### **Promote the integration of the bank supervision program with other USAID Economic Reform Programs for Romania and the accomplishment of USAID Romania's Strategic Objectives relevant to the banking sector.**

#### **Narrative:**

The bank supervision advisory team has actively contributed information and assistance to other assistance providers, to USAID, and to the American Embassy in an effort to meet the Strategic Objectives relevant to the banking sector.

In June of 2000, the National Bank of Romania hosted the USAID all sector meeting to inform the USAID advisory community of the improvements in banking regulation and in the commercial banking system. This meeting created links between several other assistance programs which have been useful for meeting sector objectives.

During the summer of 1999 and the late spring of 2000 when there were problems with the banking and financial sector, the advisors updated the US Embassy economic staff as needed on the economic developments.

## **L**

**Initiate trans-regional and international linkages and partnerships between the NBR and other bank regulatory bodies, within the Central and East European Region and globally, by fostering exchange of information and experiences.**

### **Narrative**

**Narrative:**

Supervisors from the National Bank of Romania have attended two regional seminars sponsored by USAID during the period of this program. The subject of both of these seminars was the global nature of banking supervision.

The National Bank of Romania has developed a significant partnership with the Federal Deposit Insurance Corporation of the United States of America. The FDIC has welcomed NBR supervisors on bank examination exercises in the United States on several occasions. This partnership has been very effective in enhancing the existing training program devised by the banking supervision advisory team.

Supervisors have also attended several training classes offered by the Board of Governors of the Federal Reserve with the support of USAID. This program in combination with the live bank examinations provided by the FDIC has been very useful for the increase in knowledge, expertise, and professionalism of the NBR banking supervision staff.

## **M**

### **Collect data on Strategic Objective and Program Objective Indicators and analyze progress toward Objectives**

USAID has developed the following Intermediate Results Indicators intended to measure achievement of the above-stated Strategic Objective

- **Private bank capital as a percentage of total capital**

According to the National Bank of Romania's report on Romanian banks, the percentage of foreign capital in banks increased from 27.47% in 1998 to 39.58% in 1999. This increase reflects an overall trend in the number of banks with foreign equity since 1994. The number of banks with majority state capital declined by half drastically in 1999 with two privatizations and one merger. The Government of Romania has pledged to the IMF and the World Bank that this decline will echo in 2000 with the privatization of two more majority state owned institutions.

- **Non-Performing Loans as a % of total bank loans**

The percentage of non-performing loans has declined in early 2000, after a significant decline in 1999 due to transfers of non-performing assets to the AVAB from Bancorex. Early 2000 was also similarly affected due to the transfer of non-performing assets from Banca Agricola. In addition, the decrease in non-performing loans due to the bankruptcy and license removal of Bancoop and Romanian International Religions Bank as well as the license removal of Columna Bank will soon be seen, although in the present figures, only the closure of Bancoop is reflected.

The Government of Romania and the National Bank of Romania have made a strong commitment to clean up the financial system in 2000. Actions taken to date demonstrate their level of commitment. This cleaning of the financial system is shown, not only by the removal of licenses and bankruptcy but through the sanctioning of banks for non-compliance with laws and regulations in force, including those pertaining to recognition of non-performing assets and provisioning.

The results of the cleaning of the financial system is clearly shown in the ratio of past due and doubtful loans to total assets as of YE 1999 (2.36%) in comparison to the same ratio for YE 1998 14.54%. The comparison of past due and doubtful to total capital has decline from over 200% at YE '98 to less than 25% as of 31.12.99. A ratio reduction due to capital increases as well as non-performing asset decreases.

- **Return on equity**

Return on equity is negatively impacted by non-performing assets still held in banks in the process of restructure or under enforcement actions. As of mid year 1999, return on equity was -172.24%, this included the losses incurred by banks that as of this date have either been merged, restructured or liquidated. As of YE 1999, the figure had improved, albeit to another negative of -15.26%. This figure continues to include the financial results of institutions, which are under restructure, sanction, or as of 30.06.00, bankruptcy. ROE is perhaps a more relevant indicator since significant income is produced in Romanian banks from commissions, fees, and foreign exchange transactions.

- **Return on assets**

Return on assets echoes the ROE indicator. Return on assets is markedly affected by the change in rules regarding provisions during 1999 and the continued difficulties in the financial sector.

- **Real growth of credit to the non-financial private sector**
- **Credit to the non-financial private sector as a % of total credit**

Loans to the non-financial private sector as a percentage of non-governmental loans have declined by ten percent since the end of December, 1999. One factor to which this only slight decline may be attributed is the fact that a large percentage of these loans are denominated in foreign currencies and their value is maintained even in the current inflationary period. A portion of the non-financial loans were transferred to the AVAB during and early 2000. This may account for some of the decline, since the dip in non-financial credits appears to have occurred during January 2000 with the ratio remaining at a steady 72% subsequent to that transfer.

- **Interest spread between lending and deposit rates**

The interest rate spread between lending and deposit rates has remained relatively constant after 1998, when the very high inflation rates drove monthly deposit rates to very high levels. The spread in bank interest rates between deposits and loans has remained a relative constant hovering at 10%, while the spread in non-bank interest rates, even in the high inflation period remained at about 16% (1998) to 12% (March 2000). Given a 40% risk weight in the average loan portfolio a 12% margin is not undesirable.

- **Real growth of household deposits**

Household deposits represent about 10% of the GDP of Romania as of month end March 2000. This figure represents an almost 20% decrease from the deposit value as of the end of 1998. Consumer confidence in the commercial banking system is not high as shown by the recent demand for Romanian Treasury Bills over bank deposits. While the Deposit Guarantee Fund has demonstrated its ability to meet its obligations to depositors of bankrupt banks, there is a significant delay in the declaration of insolvency and the payment to private person depositors. Fully, 13% of total deposits are held at the CEC, demonstrating a further distrust of the private banks and the commercial banking system in general. Recent events have undermined even this tenuous trust and figures for the second quarter of 2000 may show a further decline in deposits.





**To:** Lori Yerzyk  
Project Manager

**From:** Harold H. Poppa, Jr.  
Resident Advisor  
National Bank of Romania

**Date:** March 31, 1999

**Subject:** **National Bank of Romania—Strengthening Bank Supervision  
Contract No. EPE-I-00-95-00048-00, Task Order No. 14**

**Re:** Final Report

### **Executive Summary**

Implementing and institutionalizing a risk-based banking supervision function or culture is a multi-phase endeavor. The initial phase includes the development of basic tools (policies, procedures, etc.) to enable supervisors to access and evaluate the banking system. Subsequent stages involve the development and implementation of specialty tools, enhanced training and most importantly, the evolution of the a sustainable supervisory culture.

During this initial project the advisors have been able to introduce to the National Bank of Romania Banking Supervision Department the basic tools to support a risk-based banking supervision process. However, implementation of the recommended tools has not been fully realized at this time.

One obstacle to the implementation of advisor recommendations is the NBR's position that outside advisors may not participate in on-site examinations with Bank Supervision Department (BSD) examination personnel. This has restricted the advisors ability to introduce new examination concepts to the BSD examination staff. On-the-Job training would have been the most efficient method for introduction of the recommended risk-based supervision policies and procedures that have been developed, including the *"Handbook for Bank Examiners"* and the *"Uniform Financial Institution Rating System"*.

The second obstacle has been the lack of BSD senior management commitment to the bank supervision assistance program. The former Vice-Governor in charge of the Banking Supervision Department never had contact with the advisors during the whole duration of the project. This Vice-Governor was replaced in January, 1999. The advisor relationship with the new Deputy Governor in charge of bank supervision seems to be good.

Although these issues were significant impediments to the bank supervision project, they were not considered unusual in that these same obstacles have been consistently encountered in similar assistance programs in other countries. It is not unusual for counterparts to be reluctant to seek assistance of foreign advisors or to allow them access to confidential banking data. Additionally, it is not uncommon for acceptance of technical assistance to be slowed due to a counterparts ability to accept changes, adapt to new theories and implement new processes.

Even though impediments have been encountered, significant accomplishments have been achieved. The fundamental policies, procedures, manuals, etc. to support a risk-based banking supervision function within the National Bank of Romania have been developed and translated and are ready for implementation. In addition, a rapport has developed between the advisors and a number of senior executives within the NBR. Several training seminars have been presented, all of which were well received. Contacts have been developed within the bank supervision staff and with staff members of other divisions of the NBR. While it is the goal of this project to advise and strengthen the banking supervision processes of the NBR, it is important to remember that the strength of the financial system is a global issue. Therefore, the advisors have consistently tried to address the needs of other NBR departments as they posed questions which arose in the ordinary course of business and to the extent that they related to banking supervision issues.

### **Tangible Results**

- 1. The bank supervision authority will have examined licensed banks according to an annual schedule based on priority.**

The BSD completed their annual schedule of on-site inspections for 1997 but not all final inspection reports were completed and submitted to bank management. Inspections continued during 1998 but completion of the full examination schedule did not occur due in part to other priorities established for the BSD (developing new regulations for new laws, etc.). None of the examinations to date have been conducted using the risk-based examination procedures recommended by the advisors.

- 2. The bank supervision authority will have examined those banks scheduled for on-site examination during the TOR and communicated final reports of inspection to the bank's management.**

See No. 1 above.

**3. The inspection staff will have the fundamental skills to perform an examination in accordance with basic prudential regulations.**

An initial training needs assessment was conducted and a recommended training program was developed early in the program. Recommended formal training included eleven courses: Bank Supervision Orientation, Introductory Bank Supervision, Advanced Bank Supervision, Introductory Credit Analysis, Intermediate Credit Analysis, Funds Management and Liquidity, Internal Control and Audit, Bank Accounting, White Collar Crime, Electronic Data Processing, and Foreign Exchange.

The Bank Supervision Orientation training program was completed the week of August 4, 1997; Introductory Bank Supervision training was completed the week of October 13, 1997; Advanced Bank Supervision training was completed the week of November 10, 1997; Introductory Credit Analysis Training was completed the week of February 23, 1998; and Intermediate Credit Analysis training was completed the week of March 23, 1998.

The Funds Management and Liquidity and the Internal Control and Audit training programs were initially scheduled for the week of June 15, 1998; however, BSD management stated that all further formal training programs would be terminated until at least the end of September 1998 due to the lack of availability of examination staff for training. They indicated that other BSD priorities would take precedence to the training program (review of year end 1997 bank annual reports, drafting of new regulations in compliance with the new banking laws, and the need to conduct on-site examinations).

In September 1998 the Governor hired an advisor for training. In coordination with the Barents advisors, a training program was recommended to the Governor that would be required for all bank supervision staff. In addition, a second level program was recommended to train a cadre of supervision specialists.

While several training recommendations have been made, a formal training program has not been reinitiated by the BSD at this time.

**4. The bank supervision authority will have developed an on-site policy and procedures inspection manual.**

A "*Handbook for Bank Examiners*" was developed, fully translated and presented to the BSD. The handbook incorporates detailed examination procedures and detailed procedures for the evaluation of commercial bank internal and external audit functions and internal control processes.

In addition, a "*Bank Supervision Process*" policy was developed which provides guidelines for implementation of risk-based supervision. This policy is supported by a "*Bank*

*Supervision and Examination Process - Examiners Handbook*” which provides the details for implementation of risk-based supervision and provides standardized risk definitions and establishes parameters for risk identification and analysis for commercial banks.

**5. The bank supervision authority will have developed standardized documents relating to on-site examinations.**

A number of recommended policies, procedures, manuals, etc. have been submitted to BSD management, including:

*“Bank Supervision Mission Statement”* which outlines basic banking supervision objectives.

*“Bank Supervision Process”* manual which outlines the risk-based bank supervision process.

*“Uniform Financial Institution Rating System Policy”* which provides the NBR an internal commercial bank rating system for the uniform and consistent evaluation of bank safety and soundness.

*“Handbook for Bank Examiners”* which provides the detailed examination procedures for on-site examinations.

*“Examination Procedures for Non-complex Banks”* which provides abbreviated examination procedures for small, non-complex and financially sound commercial banks.

*“Policy for Taking Corrective Action”* which outlines a uniform and consistent process for the determination of appropriate corrective actions and enforcement measures for violations of law and/or unsafe and unsound banking practices or conditions in supervised commercial banks.

*“Safety and Soundness Standards”* policy which outlines fundamental safety and soundness standards for commercial banks.

*“Bank Supervision and Examination Process - Examiners Handbook”* which provides the details for the recommended risk-based bank supervision process.

*“Report of Examination Policy”* which provides guidelines for consistency in standardized report of examination preparation and content.

*“Report of Examination”* which details a standardized report of examination to be submitted to commercial banks upon completion of an on-site examination.

*"Statistical Data Sheet"* which provides a format for the collection and analysis of current and historical examination information for commercial banks.

*"Credit Classification, Provisioning and Interest Suspension Guidelines"* which establishes guidelines for the risk classification of extensions of credit, processes for the establishment of adequate reserves for problem loans and guidelines for the suspension of interest accruals for problem loans.

*"Guidelines for Capitalization of Interest"* which establishes parameters/standards for adding accrued interest to loan balances at loan renewals.

*"Reserve for Loan Losses Policy"* which provides guidelines for the maintenance of adequate loan losses reserves for commercial bank loan portfolios.

*"Handbook for Off-site Supervision"* which provides guidelines for the off-site supervision process.

*"Examiners Training Policy"* which outlines the recommended training requirements for bank supervision personnel.

*"Handbook for Information Systems Examiners"* which provides examination procedures for commercial bank information technology examinations.

*"Guidelines for Bank Resolution"* manual which provides guidelines for the resolution of troubled commercial banks (acquisition, merger, etc.).

**6. The bank supervision authority will have procedures to deal with problem banks, including merger, acquisition and liquidation.**

A problem bank resolution manual has been completed and submitted to NBR management. Elements of earlier recommendations were incorporated into the new bank bankruptcy law of 1998.

**7. The inspectors who received training in the U.S. will have developed reference materials or a case study for the bank supervision department on the areas in which they received training and will have provided training and/or held seminars, as appropriate, in these areas for the NBR bank supervision staff to transfer information and skills.**

The U.S. based training program was completed. Two persons attended the Financial Institution Analysis School at the Washington, D.C. Federal Reserve Bank during July 1998. One person continued training with a two week observation of an FDIC on-site examination.

The second component of the training program was conducted in October 1998, when two persons attending the World Bank / Federal Reserve System Seminar for Senior Bank Supervisors held in Washington, D.C.

BSD management has requested that this program be repeated for 1999.

**Attachments:**

**No. 1** - Task Order Accomplishment Report

## **Attachment No. 1 - Task Order Accomplishment Report**

The following information provides comprehensive details of the technical assistance project from commencement to date. The information is structured to address each task / work-step as outlined in the Task Order. Each task / work-step is defined and highlighted, followed by the advisor accomplishments relating to that task / work-step.

### **Task 1 - Assessment**

**A. Conduct assessment to determine the overall status of bank supervision (On-site & Off-site) in accordance with the BSAM (Bank Supervision Assessment Matrix).**

**Accomplishments:** The "Bank Supervision Assessment Matrix" (BSAM) was completed to determine the overall status of the NBR's bank supervision process. Based on this analysis, a workplan for this project was developed that detailed and prioritized those activities necessary to accomplish the objectives outlined in the "Statement of Work" for this project.

**B. Review and assess existing banking laws and regulations relating to bank supervision authority to license banks, monitor banks On-site, enforce prudential regulations and to deal with problem banks, particularly failed banks.**

**Accomplishments:** An initial review of existing laws and regulations was conducted very early in the project. The review was expanded to include the new banking laws enacted in 1998. These new laws require the NBR to adopt applicable implementation regulations (Norms). The advisors have reviewed the new regulations proposed by the Bank Supervision Department (BSD) that have provided to us to date and submitted our recommendations for consideration. Recommended regulations were drafted and submitted to the BSD for: (1) "Changes in Bank Control", (2) "Changes in Bank Share Capital", (3) "Commercial Bank Head Office Relocation", (4) "Branch Approvals", and (5) "Expansion in Fixed Assets Approvals".

**C. Review and assess NBR bank supervision staff and organizational structure.**

**Accomplishments:** An initial organizational and staffing review was conducted early in the program. In addition, the Governor of the NBR requested that the advisors develop recommendations for reorganization of the bank supervision department. The organizational structure and staffing was reviewed and a report submitted to the Governor outlining our recommendations.



- D. Provide advice and recommendations to the NBR on how to remedy any deficiencies or gaps in banking laws and regulations and operational structure relating to bank supervision.**

**Accomplishments:** As indicated in elements A, B, and C, a number of recommendations have been provided to the NBR to address identified areas for improvement.

**Task 2 - Strengthen Overall Supervisory Policy and Legal / Regulatory Framework**

**A. Institutional Development of the NBR / BSD**

- (i) Assist in the formulation and implementation of a Mission Statement and Strategic Plan for bank supervision (overall roll of bank supervision and goals and objectives for bank supervision).**

**Accomplishments:** A bank supervision department "Mission Statement" has been drafted, translated and submitted to BSD management.

- (ii) Assist in the improvement of operations and organizational structure of the BSD. Provide guidance in the assessment of staffing needs and formulation of a training program.**

**Accomplishments:** A training needs assessment was conducted and a training program developed. Recommended formal training included eleven courses: Bank Supervision Orientation, Introductory Bank Supervision, Advanced Bank Supervision, Introductory Credit Analysis, Intermediate Credit Analysis, Funds Management and Liquidity, Internal Control and Audit, Bank Accounting, White Collar Crime, Electronic Data Processing, and Foreign Exchange.

The Bank Supervision Orientation training program was completed the week of August 4, 1997; Introductory Bank Supervision training was completed the week of October 13, 1997; Advanced Bank Supervision training was completed the week of November 10, 1997; Introductory Credit Analysis Training was completed the week of February 23, 1998; and Intermediate Credit Analysis training was completed the week of March 23, 1998.

The Funds Management and Liquidity and the Internal Control and Audit training programs were initially scheduled for the week of June 15, 1998; however, BSD management stated that all further formal training programs would be terminated

until at least the end of September 1998 due to the lack of availability of examination staff for training. They indicated that other BSD priorities would take precedence to the training program (review of year end 1997 bank annual reports, drafting of new regulations in compliance with the new banking laws, and the need to conduct on-site examinations).

- (iii) Introduce Risk Based Supervision, including development of risk profiles for banks and individualized bank supervision strategies to address identified risk(s). Provide guidance and training in risk assessment to include individual banks and the entire portfolio of banks.**

**Accomplishments:** Training for a risk-based supervision process was included in the formal training conducted in 1997 (Bank Supervision Orientation, Introductory Bank Supervision, Advanced Bank Supervision). These programs included the initial introduction of a Uniform Bank Rating System, discussion of risk based supervision concepts and development of supervision strategies based on a banks risk profile.

A recommended "Uniform Financial Institution Rating System" has been drafted, translated and submitted to BSD management.

In addition, a risk based supervision policy and manual ("Bank Supervision Process" and "Bank Supervision & Examination Process - Examiners Handbook") have been drafted, translated and submitted to BSD management.

NBR/BSD management has refused to allow the advisors to participate in on-site examinations and has been unwilling to discuss information concerning individual bank examination findings and conclusions. This has made it impossible for the advisors to provide on-the-job training (OJT) to the examination staff for implementation of the above mentioned policies and procedures.

## **B. Legal / Regulatory Framework**

- (i) Make recommendations as necessary to provide an improved framework for accomplishing bank supervision.**

**Accomplishments:** Recommendations have been made for the implementation of the following policies and procedures:

A recommended "Mission Statement" which outlines the basic goals and objectives for bank supervision.

A recommended "Bank Supervision Process" policy and "Bank Supervision & Examination Process - Examiners Handbook" which details the policy and procedures for a risk based supervision process has been drafted, translated and submitted to BSD management.

A recommended "Guidelines for Capitalization of Interest" which provided guidance concerning the addition of interest due but not collected to the principal balance of loans when the loans are renewed. This policy would prevent the improper capitalization of accrued uncollected interest to the note balance for troubled borrowers.

A recommended "Policy for Taking Corrective Action" which outlines the specific actions to be taken by the BSD based on the overall risk profile of a bank as identified by the "Uniform Financial Institution Rating System". This policy would promote consistent and transparent action by the BSD for troubled banks.

A recommended "Uniform Financial Institution Rating System" which provided an overall or composite risk rating for a bank and component ratings for Capital Adequacy, Asset Quality, Management & Board of Directors Administration, Earnings Performance, and Liquidity (CAMEL). The BSD uses an informal internal rating process; however, the ratings do not include an evaluation of management, possibly the most critical element in the performance of a bank.

A recommended "Reserve for Loan and Lease Losses Policy" which outlines criteria and methodologies for the evaluation of loan loss reserve adequacy and details bank management and director responsibility for the maintenance of adequate loan loss reserves.

A recommended "Off-site Supervision Manual" which outlines responsibilities and procedures for off-site surveillance of banks based on information from on-site inspections and bank prudential reports which are submitted on a periodic basis.

A recommended "Credit Classification Matrix" which incorporates various factors to be considered in the evaluation and classification (risk grading) of loans and other extensions of credit as well as interest suspension considerations for troubled credits.

A recommended "Report of Examination Policy" and a standardized "Report of Examination" format which provides an outline for a Report of Examination (ROE) and guidelines for examiner completion of the ROE. In addition, a

“Statistical Data Sheet” which provides ready access to pertinent statistics from previous examinations and the most current examination has been completed.

A recommended “Handbook for Information System Examiners” which provides procedures for the on-site inspection of electronic data processing facilities used by commercial banks has been recently completed and submitted to NBR/BSA management for review and comment.

A recommended on-site inspection manual (“Handbook for Bank Examiners”) has been completed, translated and submitted to NBR management. The NBR Governor has expressed considerable satisfaction with the manual.

A recommended “Examiner Training Policy” which outlines the basic training requirements for on-site and off-site examiners.

Recommended regulations, policies and procedures have been submitted to BSA management concerning elements of the new banking legislation, including “Safety and Soundness Standards for Commercial banks”, “Changes in Share Capital”, “Change in Bank Control”, Relocation of Head Office”, “Branch Approvals”, and “Expansion of Fixed Assets”.

**(ii) Assist in the introduction of new laws, regulations and policies to the financial community with meetings, seminars and training as needed.**

**Accomplishments:** The Romanian Banking Institute requested advisor participation in their bank accounting program and two one-hour presentations were performed. A “Directors Guide to Board Reports” was drafted that outlines the information that bank boards of directors should have available for review and discussion at their regular board meetings.

During the first week of February, 1999, Barents Group and the National Bank of Romania, with the cooperation of the FSVC, Carana Corporation and the U.S. Treasury, held a seminar on the new Bank Bankruptcy Law for Syndic Judges. The main objectives of the seminar were to:

1. Present a review of the new law on bank bankruptcy and the segment of the law on banking which provides for the Special Supervision and Special Administration Powers of the National Bank of Romania as they relate to banks,
2. Address the experience of bank bankruptcy from the American perspective, and

3. Address asset and liability valuation.

**C. Supervisory Responses and Enforcement Powers**

- (i) **Assist in developing a range of tools used to enforce corrective actions and to resolve weaknesses identified during on-site / off-site analysis.**

**Accomplishments:** A recommended "Uniform Financial Institution Rating System" (UFIRS) has been developed that provides an overall bank risk rating, a "Policy for Taking Corrective Action" has been developed that provides guidance for BSD action for troubled banks based on the UFIRS risk rating, and a "Problem Bank Resolution Manual" has been developed that provides guidance for the resolution of problem banks (mergers, acquisitions, liquidation, etc.). In addition, policies and procedures for the implementation of a risk based supervision process and an "Off-site Supervision Manual" have been developed.

- (ii) **Assess existing enforcement processes and supervisory authorities. Make recommendations for enhancements, modifications and / or additions.**

**Accomplishments:** An initial review of enforcement powers and procedures available under the existing legal structure was performed early in the initial stages of the assistance program. In addition, the new legislation implemented in early 1998 was also reviewed.

A recommended "Uniform Financial Institution Rating System" (UFIRS) has been developed that provides an overall bank risk rating, a "Policy for Taking Corrective Action" has been developed that provides guidance for BSD action for troubled banks based on the UFIRS risk rating, and a "Problem Bank Resolution Manual" has been developed that provides guidance for the resolution of problem banks (mergers, acquisitions, liquidation, etc.). In addition, policies and procedures for the implementation of a risk-based supervision process and an "Off-site Supervision Manual" have been developed.

Recommended regulations, policies and procedures have been submitted to BSD management concerning elements of the new banking legislation, including "Safety and Soundness Standards for Commercial banks", "Changes in Share Capital", "Change in Bank Control", Relocation of Head Office", "Branch Approvals", and "Expansion of Fixed Assets".

- (iii) **Assist in the implementation of revised enforcement powers. Develop a procedural manual and provide training as required.**

**Accomplishments:** See element C. (ii), above.

### **Task 3 - Strengthening On-Site Supervision**

- A. Develop and implement on-site examination process based on prudential regulations which will provide a CAMEL (Capital, Assets, Management, Earnings, Liquidity) type rating process to include examination procedures, classroom training and on-site examination testing.**

**Accomplishments:** Recommendations have been made for the implementation of the following policies and procedures:

A recommended "Bank Supervision Process" policy and "Bank Supervision & Examination Process - Examiners Handbook" which details the policy and procedures for a risk based supervision process has been drafted, translated and submitted to BSD management.

A recommended "Uniform Financial Institution Rating System" which provided an overall or composite risk rating for a bank and component ratings for Capital Adequacy, Asset Quality, Management & Board of Directors Administration, Earnings Performance, and Liquidity (CAMEL). The BSD uses an informal internal rating process; however, the ratings do not include an evaluation of management, possibly the most critical element in the performance of a bank.

A recommended "Policy for Taking Corrective Action" which outlines the specific actions to be taken by the BSD based on the overall risk profile of a bank as identified by the "Uniform Financial Institution Rating System". This policy would promote consistent and transparent action by the BSD for troubled banks.

A recommended "Credit Classification Matrix" which incorporates various factors to be considered in the evaluation and classification (risk grading) of loans and other extensions of credit as well as interest suspension considerations for troubled credits.

A recommended on-site inspection manual ("Handbook for Bank Examiners") has been completed, translated and submitted to NBR management.

A recommended "Report of Examination Policy" and a standardized "Report of Examination" format which provides an outline for a Report of Examination

(ROE) and guidelines for examiner completion of the ROE. In addition, a "Statistical Data Sheet" which provides ready access to pertinent statistics from previous examinations and the most current examination has been completed.

A recommended "Handbook for Information System Examiners" which provides procedures for the on-site inspection of electronic data processing facilities used by commercial banks has been completed and submitted to NBR/BSD management for review and comment.

The initial recommended formal training program included eleven courses: Bank Supervision Orientation, Introductory Bank Supervision, Advanced Bank Supervision, Introductory Credit Analysis, Intermediate Credit Analysis, Funds Management and Liquidity, Internal Control and Audit, Bank Accounting, White Collar Crime, Electronic Data Processing, and Foreign Exchange. The Bank Supervision Orientation, Introductory Bank Supervision, Advanced Bank Supervision, Introductory Credit Analysis, and Intermediate Credit Analysis training programs were completed as scheduled. The Funds Management - Liquidity and the Internal Control and Audit training programs were initially scheduled for the week of June 15, 1998; however, BSD management stated that all further formal training programs would be terminated until at least the end of September 1998 due to the lack of availability of examination staff for training purposes. The formal training program has not recommenced at this date.

**B. Assist in development of administrative policies and procedures relating to the overall examination process to include workpaper format and a report of examination.**

**Accomplishments:** A recommended on-site inspection manual ("Handbook for Bank Examiners") has been submitted to NBR management. The Handbook includes guidelines for examination workpaper format, examination procedures, internal control questionnaires, and verification procedures. In addition, examination procedures for noncomplex banks have been developed for use in smaller, less complex banks where the overall condition of the bank is generally satisfactory and full scope examination procedures are not warranted.

A recommended "Bank Supervision Process" policy and "Bank Supervision & Examination Process - Examiners Handbook" which details the policy and procedures for a risk based supervision process has been drafted, translated and submitted to BSD management.

A recommended "Report of Examination Policy" and a standardized "Report of Examination" format which provides an outline for a Report of Examination

(ROE) and guidelines for examiner completion of the ROE. In addition, a "Statistical Data Sheet" which provides ready access to pertinent statistics from previous examinations and the most current examination has been completed.

**C. Assist in the development of basic on-site examination manual to include development of outline, drafting of chapters, testing during on-site examinations, classroom training and finalization of procedures.**

**Accomplishments:** A recommended on-site inspection manual ("Handbook for Bank Examiners") has been submitted to NBR management. The Handbook includes guidelines for examination workpaper format, examination procedures, internal control questionnaires, and verification procedures. In addition, examination procedures for noncomplex banks have been developed for use in smaller, less complex banks where the overall condition of the bank is generally satisfactory and full scope examination procedures are not warranted.

BSD management has refused to allow advisor participation in on-site examinations and has not yet committed on-site examination personnel for Handbook training or testing of the examination procedures.

**D. Assist with finalization of "Report of Examination" format. The Report of Examination will be tested during on-site examination to determine usefulness and provide examiner training in report preparation.**

**Accomplishments:** A recommended "Report of Examination Policy" and a standardized "Report of Examination" format which provides an outline for a Report of Examination (ROE) and guidelines for examiner completion of the ROE. In addition, a "Statistical Data Sheet" which provides ready access to pertinent statistics from previous examinations and the most current examination has been completed.

BSD management has refused to allow advisor participation in on-site examinations and has not yet committed on-site examination personnel for training or testing of the examination procedures and Report of Examination.

**E. Assist in the development of administrative procedures for remedial actions to address conditions of concern disclosed by on-site and off-site examination/analysis.**

**Accomplishments:** A recommended "Uniform Financial Institution Rating System" (UFIRS) has been developed that provides an overall bank risk rating, a "Policy for Taking Corrective Action" has been developed that provided guidance



for BSD action for troubled banks based on the UFIRS risk rating, and a "Problem Bank Resolution Manual" has been developed that provides guidance for the resolution of problem banks (mergers, acquisitions, liquidation, etc.), and includes formats and recommendations for various types of administrative actions. In addition, policies and procedures for the implementation of a risk based supervision process and an "Off-site Supervision Manual" have been developed.

#### **Task 4 - Linking On-site and Off-site Supervision**

- A. Assist in linking on-site examination process to off-site surveillance system to promote development of supervisory strategies (scope and frequency) based on perceived risk levels.**

**Accomplishments:** Written policies and procedures has been developed and recommended to BSD management that would provide a structure linking the on-site examination process and off-site surveillance. These procedures begin with the recommended "Mission Statement" which outlines the fundamental objectives of bank supervision.

Guidance for implementation of the Mission Statement objectives is provided in "Bank Supervision Process" policy which provides the guidelines for implementation of risk based supervision. This policy is supported by the "Bank Supervision and Examination Process - Examiners Handbook" which provides the details and procedures for implementation of risk-based supervision, including the development of supervisory strategies for banks based on the perceived level of risk as identified by on-site examinations and off-site surveillance.

The "Uniform Financial Institution Rating System" (UFIRS) provides guidelines for risk grading banks and would provide for transparency and consistency in the NBR's implementation of corrective action for problem institutions. This is further supported by the "Policy for Taking Corrective Action" which provides guidelines for the development of administrative action for problem banks based on overall risk as identified under the UFIRS.

The "Handbook for Bank Examiners" provides the procedures for conducting on-site examination and stresses the evaluation of risk (current and future potential). These examination procedures are further supported by "Examination Procedures for Noncomplex Banks" which provide abbreviated, basic examination criteria for smaller, financially sound banks that do not engage in complex operations which would warrant the time and resources required for a full scope examination as detailed in the Handbook procedures.



The "Handbook for Off-site Supervision" provides guidelines for offsite supervision structured around a risk-based supervision process and coordinates off-site supervision with the on-site examination process and the overall objectives of bank supervision as outlined in the Mission Statement.

The above recommendations provide the required elements for a coordinated risk based supervisory process incorporating both on-site inspections and off-site surveillance.

**B. Evaluate Chart of Accounts, report formats and processing of regulatory reports for content and effectiveness. Provide recommendations for modifications, additions and deletions as required.**

**Accomplishments:** A new Chart of Accounts for bank accounting was introduced by the NBR at year-end 1997 and was fully implemented during 1998. The reporting processes for commercial banks under the new chart of accounts is currently under review by the NBR. A task force has been formed and directed to determine the reporting requirements for the NBR, including Banking Supervision. The program's intent is to enhance the quality and reliability of information submitted to the NBR, reduce the duplication of report information requirements now placed on commercial banks and to provide automation of the reporting process. Recommendations have been provided concerning the overall reporting process, including banking supervision requirements and a time-line for project development and completion. The scope of the current restructuring effort goes well beyond the scope of the current USAID assistance program for bank supervision.

**C. As needed, assist in development of manuals or training for examiner/banker understanding of financial reporting requirements and/or report preparation.**

**Accomplishments:** BSD management has not requested assistance in this area.

**D. Assist in development of bank rating system (CAMEL) that identified risk(s) and correlates to specific types of enforcement actions. Rating system should include ratings for risk management (Risk Based Supervision). Written policies and procedures will be developed and training provided in the use of the rating system.**

**Accomplishments:** A recommended "Uniform Financial Institution Rating System" which provided an overall or composite risk rating for a bank and

component ratings for Capital Adequacy, Asset Quality, Management & Board of Directors Administration, Earnings Performance, and Liquidity (CAMEL). The BSD uses an informal internal rating process; however, the ratings do not include an evaluation of management, possibly the most critical element in the performance of a bank.

A recommended "Policy for Taking Corrective Action" which outlines the specific actions to be taken by the BSD based on the overall risk profile of a bank as identified by the "Uniform Financial Institution Rating System". This policy would promote consistent and transparent action by the BSD for troubled banks.

Basic training on the "Uniform Financial Institution Rating System" and the "Policy for Taking Corrective Action" was provided in the "Introductory Bank Supervision" and "Intermediate Bank Supervision" training programs conducted in 1997.

- E. Assist in development of "Early Warning System" for identification of potential troubled banks. Specific ratios will be identified and procedures developed for performing periodic analysis. Training will be provided in the use of the early warning analysis process.**

**Accomplishments:** The "Handbook for Off-site Supervision" provides guidelines for offsite supervision structured around a risk-based supervision process and coordinates off-site supervision with the on-site examination process and the overall objectives of bank supervision as outlined in the Mission Statement.

A recommended "Bank Supervision Process" policy and "Bank Supervision & Examination Process - Examiners Handbook" which details the policy and procedures for a risk-based supervision process has been drafted, translated and submitted to BSD management.

A recommended "Uniform Financial Institution Rating System" (UFIRS) has been developed that provides an overall bank risk rating, a "Policy for Taking Corrective Action" has been developed that provides guidance for BSD action for troubled banks based on the UFIRS risk rating, and a "Problem Bank Resolution Manual" has been developed that provides guidance for the resolution of problem banks (mergers, acquisitions, liquidation, etc.), and includes formats and recommendations for various types of administrative actions. In addition, policies and procedures for the implementation of a risk-based supervision process have been developed.

**F. Assist in the development of policies and procedures to manage banks (individual and portfolio) based on perceived risks and NBR resources.**

**Accomplishments:** Recommendations have been made for the implementation of the following policies and procedures which were developed to effectively implement a risk-based supervisory process:

A recommended "Mission Statement" which outlines the basic goals and objectives for bank supervision.

A recommended "Bank Supervision Process" policy and "Bank Supervision & Examination Process - Examiners Handbook" which details the policy and procedures for a risk-based supervision process has been drafted, translated and submitted to BSD management.

A recommended "Uniform Financial Institution Rating System" which provided an overall or composite risk rating for a bank and component ratings for Capital Adequacy, Asset Quality, Management & Board of Directors Administration, Earnings Performance, and Liquidity (CAMEL). The BSD uses an informal internal rating process; however, the ratings do not include an evaluation of management, possibly the most critical element in the performance of a bank.

A recommended "Policy for Taking Corrective Action" which outlines the specific actions to be taken by the BSD based on the overall risk profile of a bank as identified by the "Uniform Financial Institution Rating System". This policy would promote consistent and transparent action by the BSD for troubled banks.

A recommended "Off-site Supervision Manual" which outlines responsibilities and procedures for off-site surveillance of banks based on information from on-site inspections and bank prudential reports which are submitted on a periodic basis.

A recommended "Report of Examination Policy" and a standardized "Report of Examination" format which provides an outline for a Report of Examination (ROE) and guidelines for examiner completion of the ROE. In addition, a "Statistical Data Sheet" which provides ready access to pertinent statistics from previous examinations and the most current examination has been completed.

A recommended on-site inspection manual ("Handbook for Bank Examiners") has been submitted to NBR management.

A recommended "Examiner Training Policy" which outlines the basic training requirements for on-site and off-site examiners.

### **Task 5 - Problem Banks**

- A. Assist in the development and implementation of written guidelines outlining rehabilitative steps and introduce systems for working with management of troubled banks to eliminate deficiencies and return banks to a safe and sound condition.**

**Accomplishments:** A recommended "Problem Bank Resolution Manual" has been developed that provides guidance for the resolution of problem banks (mergers, acquisitions, liquidation, etc.), and includes formats and recommendations for various types of administrative actions to be employed with troubled banks.

In addition, the recommended "Uniform Financial Institution Rating System" (UFIRS) provides an overall bank risk rating and the recommended "Policy for Taking Corrective Action" provides guidance for BSD action for troubled banks based on the UFIRS risk rating. Additional policies and procedures for the implementation of a risk-based supervision process have been developed.

These policies and procedures provide a framework for standardized and transparent processes for dealing with troubled financial institutions.

- B. Assist in development of techniques to resolve issues through strengthening and rehabilitation efforts (merger, change of ownership, resolution of problem assets) as well as liquidation to include drafting procedures manuals and providing examiner training. The objective is standardized criteria for troubled bank analysis that leads to fully transparent, standardized enforcement actions for troubled banks.**

**Accomplishments:** A "Problem Bank Resolution Manual" has been developed and submitted to the NBR. In the problem bank area, the advisors have assisted the senior advisors to the Governor of the National Bank of Romania on a case by cases basis. To the extent that the advisors are able to influence the senior management of the bank in applying consistent and transparent techniques to the problem bank situations as they arise, this task is being fulfilled. While it is optimal that the bank develop its own staff who are able to address these problems, the overall objective is that the problem bank issues are addressed as they arise.

It is not uncommon for the supervision staff to distance itself from problem bank resolution issues. In the FDIC there is a significant fire wall between the safety and soundness division and that which resolves failed institutions. Just as there is a significant distinction from a bank which is a going concern and a bank that is in liquidation, it is reasonable to believe that central bank supervision staff would back away from the potential conflict of interest issues that surround bankrupt bank situations. Having said this, the advisors appear to have had a substantial impact on the attitudes of the central bank concerning problem institutions.

The problem banks are unique in that the advisors are given information on these banks and have had discussions with supervision staff members on the approach to resolution. Still, problem bank resolution is largely a political issue, since the largest problems continue to be owned by the state. After the court's rebuffs of NBR's attempts to withdraw the licenses of two banks, the NBR appeared to take a step back from the effort to aggressively attack problem banks through stringent enforcement actions.

However, in part due to the emphasis placed on the resolution of large state-owned problem banks by the World Bank and the IMF and the new administrative powers granted the NBR under the new bank bankruptcy law, the NBR recently placed a large state-owned bank under "Special Administration". This process basically requires a special administrator appointed by the NBR to recommend, within 45 days, a plan of action for resolution or liquidation of the bank.

In addition, the NBR has committed to the performance of a due diligence review of another large state owned bank within the next several weeks. These actions indicate a substantial change in attitude of the NBR / Romanian government to deal with problem bank issues.

**C. If needed and requested, assist in development of a problem bank unit within BSD, including unit function, structure and identification of criteria for problem bank status based on the internal bank rating system.**

**Accomplishments:** Assistance for development of a problem bank unit has not been requested and the limited number of banks within the Romanian banking system does not justify a special "problem bank unit", as such. However, recommendations have been made to encourage the identification of a cadre of individuals, including on-site inspectors, off-site inspectors, accounting and legal personnel that would provide a core of expertise for dealing with problem banks on an individual basis as they are identified. It was recommended that specialized training (as needed) be provided to these individuals to ensure a "core" of





specialists within the NBR capable of dealing with problem bank resolutions as the need arises.

#### **Task 6 - Providing U.S. Based Bank Regulatory Training and Internship**

**A. Design a U.S. based training program and internship at one of the U.S. bank regulatory agencies. Training/internship to consist of three primary components:**

- (i) Approximately 3 weeks standardized classroom training at a regular training session for U.S. bank examiners.
- (ii) Approximately 2 weeks participation in small or community bank examination.
- (iii) Approximately 1 week internship at one of the U.S. bank regulatory agencies for observation of organizational, management, personnel, internal/external communications procedures; training processes and supervisory policy development.

**Accomplishments:** Two persons attended the Federal Reserve Banks "Financial Institution Analysis" training program in Washington, D.C. during the period July 20 - July 31, 1998. One of these persons was also designated to participate in a two week training program with the FDIC which consisted of participation in an on-site examination with FDIC examiners. The number of persons participating in the training program and the duration of the program was restricted at the direction of BSD management.

Two additional individuals participated in the World Bank/Federal Reserve Seminar for Senior Bank Supervisors held in Washington, D.C., October 26 through November 13, 1998.

**B. Identify 4 senior BSD inspection staff as candidates for the above training/internship in the U.S.**

**Accomplishments:** See element "A.", above.

#### **Task 7 - Assistance Regarding Priority Issues, As requested by NBR/BS**

**A. Assist the NBR on other bank supervision issues as requested by the NBR and approved by USAID.**

**Accomplishments:** The advisors provided additional assistance at the request of the NBR on a number of occasions. This has allowed the advisors access to other departments and personnel within the NBR. While not directly related to bank supervision in the NBR organizational sense, these contacts do have an impact on overall bank supervision. Instances included, but have not been limited to:

- Review and evaluation of the Dacia Felix bank restructuring proposal.
- Evaluation of the Bank Agricola restructure plan.
- Evaluation of balance sheet information submitted to the NBR by Bancorex.
- Evaluation of BSD organizational structure and providing recommendations for reorganization.
- Providing information on offshore banking facilities.
- Providing information on GDR's (Global Depository Receipts).
- Providing information and examples for bank prudential reports.
- Providing information and examples concerning prudential report statistical analysis techniques.
- Review of the NBR's information gathering processes and submission of recommendations for improvement.

<b>Annex</b>					
(Amounts in thousands of USD)	<b>Dec-99</b>	<b>Mar-00</b>	<b>Apr-00</b>	<b>May-00</b>	<b>Jun-00</b>
Average Exchange Rate	17,996.43	18,352.55	18,701.71	19,207.09	19,758.50
T bills outside of banks					
Population	3,048,509	5,604,159	6,411,764	6,999,199	7,884,417
other non banking clients	1,932,813	4,921,073	5,177,853	4,967,625	5,039,149
State Securities held by non-residents	6,937	7,402	7,629	7,865	8,116
Bank Credits to Government	30,686,256	31,498,420	32,448,597	29,964,264	34,388,394
Total credits to government	35,674,515	42,031,054	44,045,843	41,938,953	47,320,076
Net Government Credits	43,620,877	43,153,932	44,053,651	43,711,702	40,322,842
T bills outside of banks					
Population	169,395.21	305,361.33	342,843.73	364,407.05	399,039.25
Other Non-banking clients	107,399.80	268,141.10	276,865.22	258,634.96	255,037.02
State Securities held by non-residents	385.47	403.32	407.93	409.48	410.76
Bank Credits to Government	1,705,130.18	1,716,296.65	1,735,060.43	1,560,062.66	1,740,435.46
Total credits to government	1,982,310.66	2,290,202.40	2,355,177.31	2,183,514.16	2,394,922.49
Net Government Credits	2,423,862.79	2,351,386.16	2,355,594.81	2,275,810.76	2,040,784.57

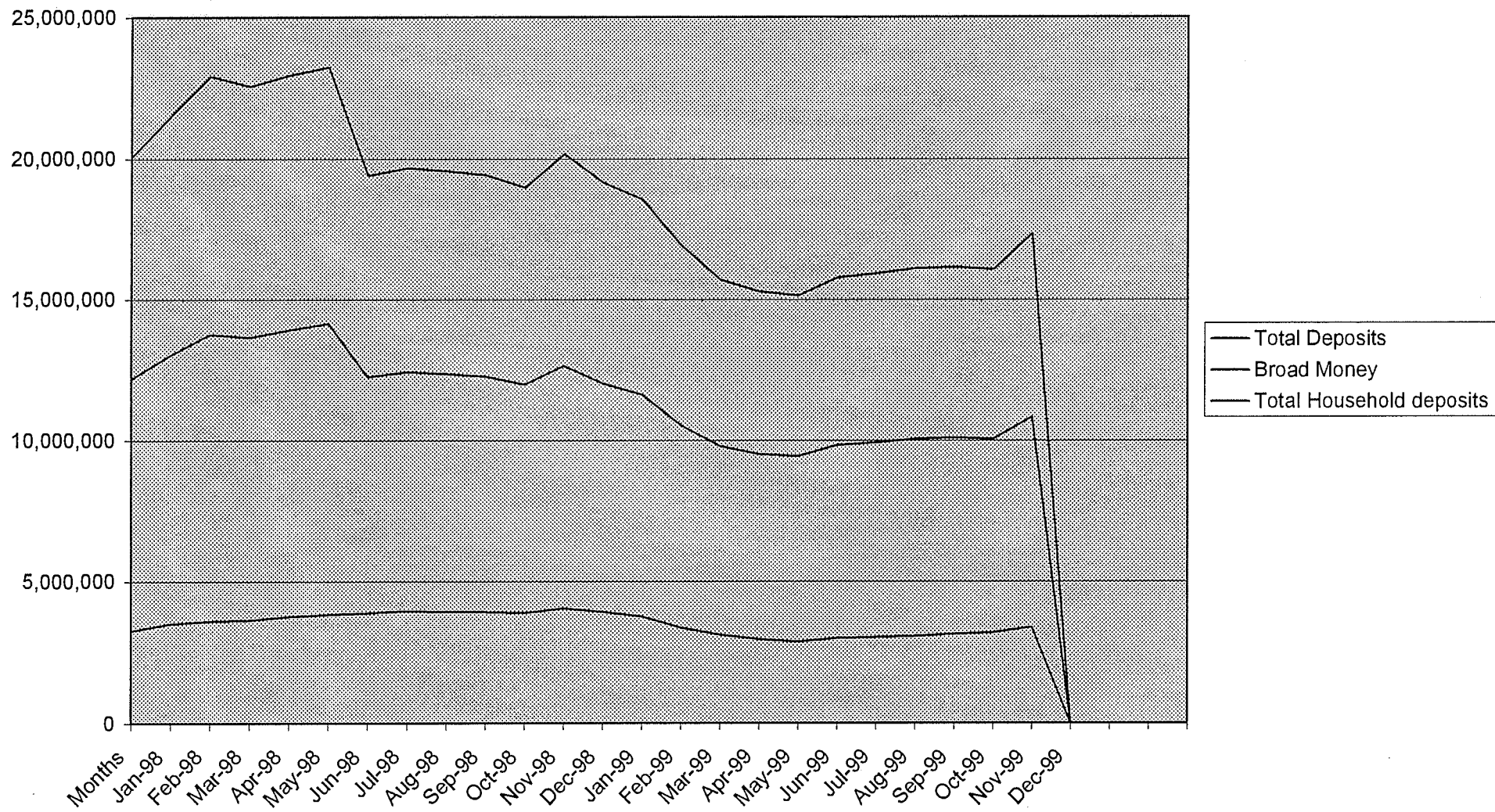
<b>Annex</b>	<b>Interest Rate Graph</b>						
(Amounts in millions of Lei)	<b><u>Jan-99</u></b>	<b><u>Feb-99</u></b>	<b><u>Mar-99</u></b>	<b><u>Apr-99</u></b>	<b><u>May-99</u></b>	<b><u>Jun-99</u></b>	<b><u>Jul-99</u></b>
Lending to Banks - Average	36.1%	55.4%	64.6%	58.2%	42.1%	46.9%	36.6%
Deposits with Banks - Average	65.0%	101.8%	89.7%	82.0%	54.7%	49.8%	49.2%
Lending to Non-banks - Average	58.7%	59.2%	61.9%	64.5%	69.8%	72.6%	75.6%
Deposits with Non-Banks - Average	42.5%	44.5%	46.1%	47.9%	49.8%	49.1%	52.1%

Annex	(Amounts in millions of Le)	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	Dec-98	Jan-99	Feb-99	Mar-99	Apr-99	May-99	Jun-99	Jul-99
Average Exchange Rate		8,293.40	8,230.90	8,207.09	8,379.62	8,477.25	8,569.36	8,699.43	8,781.24	9,050.14	9,380.68	9,908.86	10,528.59	11,353.60	12,271.00	14,053.52	14,792.62	15,237.81	15,756.50	15,915.97
Private Capital as a Percent of total capital													56.96							
Total Capital		8,237,810	7,743,115	9,466,278	10,067,753	7,404,256	8,111,417	8,494,603	9,296,156	9,259,019	8,565,489	10,585,035	11,264,278	11,711,855	12,307,665	15,893,348	17,816,756	6,306,665	8,663,168	9,911,111
State Capital													2,085,131							
Private Capital																				
Non-performing loans		10,042,046	11,487,055	12,295,703	12,786,098	13,200,168	14,064,057	14,741,406	15,319,890	16,054,377	16,938,006	17,601,873	19,030,980	20,245,491	21,180,395	24,202,967	23,387,631	24,587,146	14,448,683	10,971,111
As a percentage of Total Loans		20.35%	22.18%	22.54%	22.44%	22.30%	22.99%	22.87%	23.05%	22.63%	22.90%	22.62%	23.81%	24.49%	23.51%	25.42%	25.02%	25.56%	15.63%	1.1%
As a percentage of non-government loans		26.26%	28.53%	29.76%	30.15%	30.19%	31.16%	31.84%	32.06%	31.47%	31.41%	31.19%	32.21%	32.54%	32.37%	33.55%	32.64%	33.38%	23.36%	1.1%
Overdue Loans																				
Short term		1,999,106	2,069,307	2,140,486	2,303,130	2,337,350	2,355,758	2,473,116	2,619,173	2,509,421	2,597,511	2,612,617	2,689,707	2,961,672	2,584,029	2,484,770	2,646,329	2,527,193	2,428,899	2,299,111
Medium & Long Term		890,904	768,246	780,453	835,585	819,097	924,354	888,479	911,902	940,969	960,564	995,019	1,084,884	1,102,100	1,109,294	1,121,009	1,134,173	1,103,122	649,163	95,111
Convertible currency		7,152,036	8,649,502	9,374,764	9,647,383	10,043,721	10,783,945	11,379,911	11,788,815	12,603,987	13,379,931	13,994,237	15,256,389	16,181,719	17,487,072	20,597,188	19,607,129	20,956,831	11,370,621	7,721,111
Real Growth of credit to the Non-financial private sector																				
Lei Denominated																				
State Owned		6,513,700	6,545,700	6,532,700	6,734,600	6,717,000	6,880,700	7,176,100	7,151,400	7,301,600	7,284,700	7,257,400	7,023,800	7,192,400	6,823,200	6,889,900	6,480,000	6,424,800	6,227,900	6,248,111
Private		8,427,300	9,354,700	9,749,000	10,570,900	10,414,000	10,806,300	11,105,900	11,430,900	12,565,300	13,533,300	14,141,900	13,901,700	14,727,700	15,125,700	15,403,900	16,067,200	15,963,800	15,221,200	14,781,111
Households		1,673,700	1,765,400	1,843,400	1,860,000	1,948,000	2,018,700	2,141,000	2,264,000	2,473,600	2,636,900	2,788,700	2,917,600	2,888,500	2,887,600	2,936,800	2,919,000	2,862,000	2,694,200	2,748,111
Other		383,600	341,400	370,500	250,400	276,500	297,400	321,800	341,500	341,800	363,500	367,200	429,600	449,700	416,200	435,300	705,200	697,400	687,800	83,111
FX Denominated																				
State Owned		5,263,600	4,487,100	3,612,100	3,053,200	3,119,600	3,670,200	3,608,400	3,855,700	3,909,100	4,029,600	4,317,000	4,710,200	5,169,800	5,364,200	6,664,600	5,221,900	5,227,600	4,983,100	4,638,111
Private		15,025,600	16,972,700	17,645,100	18,269,900	19,576,300	20,774,800	21,261,100	22,041,400	23,898,100	25,332,900	26,775,500	29,278,700	30,940,700	33,823,500	38,651,000	39,334,400	41,475,400	31,180,200	26,711,111
Households		53,800	53,200	56,800	57,600	58,800	58,300	65,900	68,800	73,500	76,900	84,500	109,700	118,700	133,300	178,300	180,700	188,000	211,800	23,111
Other		904,400	740,500	1,509,400	1,607,700	1,616,300	634,700	616,100	628,400	644,000	666,700	703,400	715,400	724,800	855,900	978,500	751,600	826,000	655,100	67,111
Credits to government		11,102,500	11,523,500	13,240,200	14,577,200	15,457,700	16,044,300	18,160,300	18,678,400	19,921,300	20,028,800	21,378,500	20,832,800	20,466,200	24,645,400	23,089,400	21,803,200	22,529,100	30,580,000	35,231,111
Total		49,348,200	51,784,200	54,559,200	56,981,500	59,184,200	61,185,400	64,456,600	66,460,500	70,928,300	73,953,300	77,814,100	79,919,500	82,678,500	90,075,000	95,227,700	93,463,200	96,194,100	92,441,300	92,111,111
Total Loans less ctg		38,245,700	40,260,700	41,319,000	42,404,300	43,726,500	45,141,100	46,296,300	47,782,100	51,007,000	53,924,500	56,435,600	59,086,700	62,212,300	65,429,600	72,138,300	71,660,000	73,665,000	61,861,300	56,871,111
Bank Interest Rate Spreads																				
Lending to Banks - Average		71.7%	73.1%	66.8%	54.1%	36.9%	33.0%	30.1%	27.7%	42.9%	44.8%	59.4%	76.7%	36.1%	55.4%	64.6%	58.2%	42.1%	46.9%	3.1%
Deposits with Banks - Average		98.1%	100.5%	89.9%	74.1%	49.5%	44.9%	41.6%	48.8%	77.0%	77.5%	100.8%	129.2%	65.0%	101.8%	89.7%	82.0%	54.7%	49.8%	4.1%
Lending to Non-banks - Average		59.8%	62.0%	62.1%	60.7%	57.4%	53.2%	48.5%	47.0%	47.9%	53.0%	54.3%	58.9%	58.7%	59.2%	61.9%	64.5%	69.8%	72.6%	7.7%
Deposits with Non-Banks - Average		36.3%	40.1%	40.6%	39.6%	38.2%	34.3%	32.4%	32.1%	33.5%	37.5%	40.4%	42.3%	42.5%	44.5%	46.1%	47.9%	49.8%	49.1%	5.8%
Real growth of household deposits																				
Household - Checking accounts		593,200	562,400	617,300	624,400	658,200	669,900	684,700	706,900	654,500	831,200	917,100	769,400	587,400	703,400	733,200	735,800	845,300	833,200	925,111
Household - Savings		20,793,300	21,890,900	22,426,500	23,380,400	24,429,100	25,153,200	25,797,100	26,367,500	26,626,700	27,306,100	28,227,300	30,966,700	32,484,100	32,958,900	32,110,200	30,943,000	29,673,600	30,214,700	32,206,111
Households - FX deposits		5,709,200	6,468,000	6,555,400	6,576,400	6,849,200	7,126,100	7,400,400	7,694,400	8,220,400	8,769,500	9,457,000	10,895,000	11,561,400	12,586,300	14,643,100	14,616,700	14,547,700	14,334,600	14,756,111
Broad Money		73,950,000	78,509,600	83,351,900	83,817,400	86,101,200	88,280,600	72,726,600	74,369,600	76,372,300	78,270,100	80,246,700	90,656,600	91,953,500	96,526,500	100,764,100	98,920,700	100,167,700	103,497,600	108,976,111
Demand deposits		6,647,200	6,973,400	7,168,000	6,559,600	6,800,400	7,011,400	8,711,400	8,711,400	8,711,400	8,711,400	8,711,400	8,711,400	7,123,500	6,902,700	7,778,800	7,316,200	7,986,600	8,577,600	8,711,111
Household savings		20,793,300	21,890,900	22,426,500	23,380,400	24,429,100	25,153,200	25,797,100	26,367,500	26,626,700	27,306,100	28,227,300	30,966,700	32,484,100	32,958,900	32,110,200	30,943,000	29,673,600	30,214,700	32,206,111
Lei deposits		6,266,800	6,366,800	6,571,300	6,965,600	6,887,600	6,925,600	7,105,700	7,149,200	7,861,400	8,375,600	8,749,800	9,252,000	9,502,800	10,236,900	10,364,400	10,693,400	11,223,900	11,926,600	12,906,111
Residents FX deposits		31,739,000	34,631,200	38,987,800	37,806,200	38,657,900	38,890,300	20,680,500	21,375,200	21,942,200	22,697,000	23,459,700	30,201,500	31,739,000	34,631,200	38,987,800	37,806,200	38,657,900	38,890,300	40,276,111
Currency Outside Banks		8,503,700	8,647,300	8,198,300	9,105,600	9,526,200	10,300,100	10,431,900	10,766,300	11,230,600	11,180,000	11,098,500	11,525,000	11,104,100	11,798,800	11,522,900	12,161,900	12,625,700	13,888,400	14,881,111
Total Deposits		65,446,300	69,862,300	75,153,600	74,711,800	76,575,000	77,980,500	62,294,700	63,603,300	65,141,700	67,090,100	69,148,200	79,131,600	80,849,400	84,729,700	89,241,200	86,758,800	87,542,000	89,609,200	94,097,111



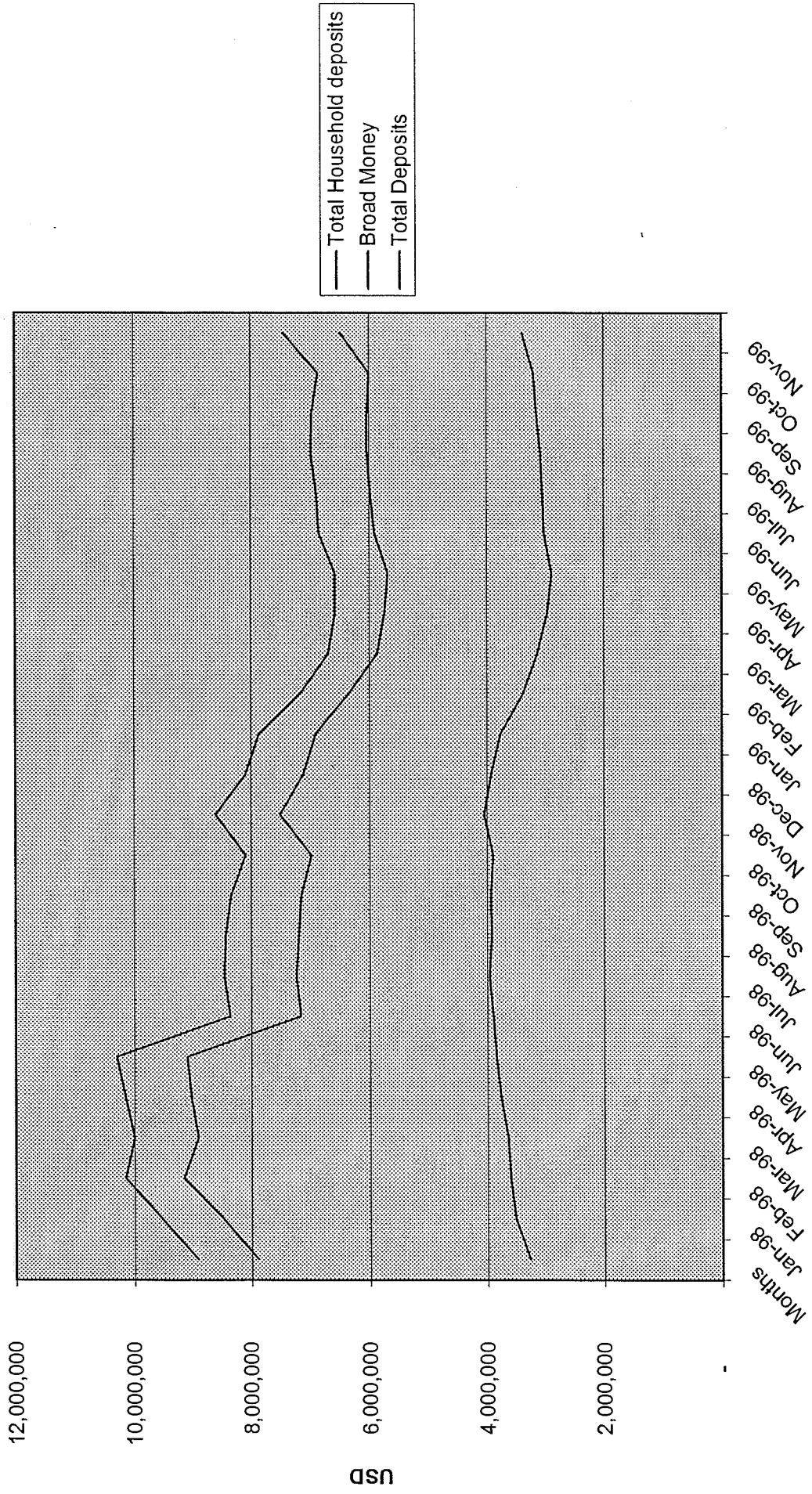
Annex	Dec-08	Dec-09	Jun-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	LAL2000
Amounts in millions of L									
Average Exchange Rate	10,528.58	17,896.43	16,352.55	16,701.71	16,207.09	19,758.50	20,393.20	21,030.60	Taken from the monthly bulletin - Financial market indicators
Private Capital as a Percent of Total Capital	59.32%	68.64%	82.73%	0.00%	0.00%	0.00%	0.00%	62.73%	Calculated - Line 7 X Line 8
Total Capital	5,125,089	8,581,082	12,684,101	10,212,487	10,582,577	10,825,263	12,094,531	12,584,101	Taken from the monthly bulletin - Aggregate balance sheet of banks
State Capital	2,085,131	3,007,348	4,689,469					4,689,469	Taken from Tufu report
Private Capital	3,040,958	5,573,734	7,994,632					7,894,632	
Non-performing loans	19,030,979	8,518,649	8,825,843	9,330,420	9,442,380	9,442,380	9,442,380	9,442,380	Calculated - Total of Lines 14 thru 18
As a percentage of Total Loans	24.42%	9.53%	9.63%	10.08%	10.04%	9.87%	9.97%	9.97%	Calculated - Line 9 divided by Line 30
As a percentage of non-government loans	32.21%	14.75%	14.75%	15.10%	15.09%	14.94%	14.93%	14.93%	Calculated - Line 9 divided by Line 31
Real Growth of credit to the Non-financial private sector									
Short Term									
State Owned	6,643,898	4,247,839	4,139,522	4,141,035	3,960,196	3,893,679	3,899,841	3,446,628	Taken from Monthly Bulletin - Monetary survey
Private	11,453,661	13,622,862	15,047,678	15,609,480	15,608,189	16,301,731	16,510,354	16,756,936	Taken from Monthly Bulletin - Monetary survey
Households	886,590	880,742	847,205	841,098	593,089	570,742	582,532	613,448	Taken from Monthly Bulletin - Monetary survey
Other	347,552	330,478	331,857	371,597	294,913	284,813	294,913	294,813	Taken from Monthly Bulletin - Monetary survey
Medium and Long Term									
State Owned	376,858	809,458	825,814	825,825	852,650	852,650	852,650	852,650	Taken from Monthly Bulletin - Monetary survey
Private	2,438,065	2,281,554	2,213,689	2,213,719	2,213,719	2,213,719	2,213,719	2,213,719	Taken from Monthly Bulletin - Monetary survey
Households	2,021,030	2,018,530	1,979,782	1,939,818	1,912,568	1,912,568	1,912,568	1,912,568	Taken from Monthly Bulletin - Monetary survey
Other	82,013	553,865	557,218	557,972	560,901	560,901	560,901	560,901	Taken from Monthly Bulletin - Monetary survey
Foreign Currency Loans	34,813,908	33,274,548	34,177,507	35,602,362	36,590,180	36,590,180	36,590,180	36,590,180	
Credits to government	18,833,014	30,889,256	31,864,239	30,960,897	31,498,420	31,498,420	31,498,420	31,498,420	Taken from Monthly Bulletin - Monetary survey
Total	77,819,530	88,405,731	91,682,201	92,765,027	94,054,824	94,689,503	94,716,078	94,740,063	Total Lines 22 thru 25
Total Loans less c/c	59,086,518	57,719,475	59,818,262	61,804,038	62,556,404	63,191,083	63,217,658	63,241,643	Line 30 less 28
Bank Interest Rate Spreads									
Lending to Banks - Average	78.7%	42.6%	39.5%	38.4%	35.8%	30.2%	29.4%	29.3%	Taken from Monthly Bulletin - Monetary indicators
Deposits with Banks - Average	129.2%	49.6%	48.1%	55.0%	44.2%	34.9%	30.9%	32.8%	Taken from Monthly Bulletin - Monetary indicators
Lending to Non-Banks - Average	-52.5%	-7.0%	-8.6%	-16.6%	-8.4%	-4.7%	-1.5%	-3.5%	-4.1885
Deposits with Non-Banks - Average	58.9%	56.0%	63.4%	62.9%	83.7%	60.2%	57.0%	50.5%	Taken from Monthly Bulletin - Monetary indicators
Real growth of household deposits	42,831,100	61,027,400	83,529,443	64,407,118	65,849,738	67,043,717	66,902,752	67,972,417	9,200475
Household - Checking accounts	769,400	745,300	858,800	1,002,612	899,757	1,038,454	923,920	937,721	Taken from Monthly Bulletin - Monetary survey
Household - Savings	30,968,700	39,246,400	40,734,772	41,922,082	42,888,267	43,038,790	42,599,227	43,252,928	Taken from Monthly Bulletin - Monetary survey
Households - FX deposits - demand	10,695,000	21,035,700	5,103,655	5,088,913	5,238,379	5,340,480	5,550,071	5,617,268	Taken from Monthly Bulletin - Monetary survey
Households - FX deposits - Term	80,656,600	134,114,300	129,445,700	131,620,000	136,194,600	139,518,340	143,046,028	148,509,358	Taken from Monthly Bulletin - Monetary survey
Demand deposits	6,711,400	12,297,300	9,096,900	9,320,200	9,920,600	10,334,428	10,458,507	10,807,505	Taken from Monthly Bulletin - Monetary survey
Household savings	30,968,700	39,246,400	40,734,772	41,922,082	42,888,267	43,038,790	42,599,227	43,252,928	Taken from Monthly Bulletin - Monetary survey
Loi deposits	9,252,000	14,726,000	14,100,800	15,138,800	15,905,800	15,220,411	14,782,557	15,318,105	Taken from Monthly Bulletin - Monetary survey
Residents FX deposits	30,201,500	50,472,600	49,801,700	49,082,900	51,220,159	51,587,304	55,015,385	57,670,001	Taken from Monthly Bulletin - Monetary survey
Currency Outside Banks	11,525,000	17,371,600	15,711,500	16,151,300	16,069,700	19,357,408	20,180,351	21,481,359	Taken from Monthly Bulletin - Monetary survey
Total Deposits	79,131,600	116,742,700	113,734,200	115,488,800	120,034,859	120,160,931	122,885,676	127,048,599	
Short Term Credits - current									
majority state owned econ. Agents	5,702,361	3,960,177	3,830,990	3,828,137	3,645,178	3,378,681	3,384,823	3,131,810	
Majority private owned econ agents	9,912,569	12,737,690	14,085,739	14,618,681	14,860,570	15,474,113	15,482,738	15,728,018	
households	839,465	523,358	488,835	482,781	505,301	512,954	524,744	555,660	
other	207,540	313,950	314,474	306,830	270,801	270,601	270,601	270,801	
Short Term credits - past due									
majority state owned econ. Agents	941,537	287,461	308,532	312,898	315,018	315,018	315,018	315,018	
Majority private owned econ agents	1,551,032	884,972	881,939	990,589	1,027,618	1,027,618	1,027,618	1,027,618	
households	57,125	57,384	58,370	58,317	57,788	57,788	57,788	57,788	
other	140,012	16,528	17,363	64,787	34,112	34,112	34,112	34,112	
M&I Credits - current									
majority state owned econ. Agents	312,699	774,634	787,204	789,860	772,755	772,755	772,755	772,755	
Majority private owned econ agents	1,457,470	1,920,854	1,851,715	1,851,283	1,835,890	1,835,890	1,835,890	1,835,890	
households	2,003,583	1,990,608	1,951,582	1,916,790	1,865,870	1,865,870	1,865,870	1,865,870	
other	62,331	63,623	87,568	97,265	100,382	100,382	100,382	100,382	
M&I Credits - past due									
majority state owned econ. Agents	67,160	34,524	38,610	38,965	79,895	79,895	79,895	79,895	
Majority private owned econ agents	580,695	360,600	381,954	362,586	377,629	377,629	377,629	377,629	
households	17,447	27,922	28,200	29,028	28,998	28,998	28,998	28,998	
other	19,882	460,042	459,850	460,707	460,519	460,519	460,519	460,519	
Conv. Currency credits - current	10,557,519	26,887,332	27,604,302	28,587,799	29,517,577	29,517,577	29,517,577	29,517,577	
Conv. Currency credits - past due	15,258,389	6,387,216	6,573,205	7,014,583	7,072,603	7,072,603	7,072,603	7,072,603	
Total Current Credits	40,055,537	49,202,826	50,997,419	52,473,618	53,114,024	53,749,703	53,775,278	53,799,263	
Total Past due credits	19,030,979	8,518,649	8,825,843	9,330,420	9,442,380	9,442,380	9,442,380	9,442,380	
Non Govt Credits	59,086,518	57,719,475	59,818,262	61,804,038	62,556,404	63,191,083	63,217,658	63,241,643	
Credits to Government	18,833,014	30,889,256	31,864,239	30,960,897	31,498,420	31,498,420	31,498,420	31,498,420	
Gross Credits	77,819,530	88,405,731	91,682,501	92,765,027	94,054,824	94,689,503	94,716,078	94,740,063	
Check Figure	0	0	0	0	0	0	0	0	
Past due households to total past due									
Total Loans by Category									
Percentage of Loans by Category									
Treasury bill structure									

Deposit Trends 98/99

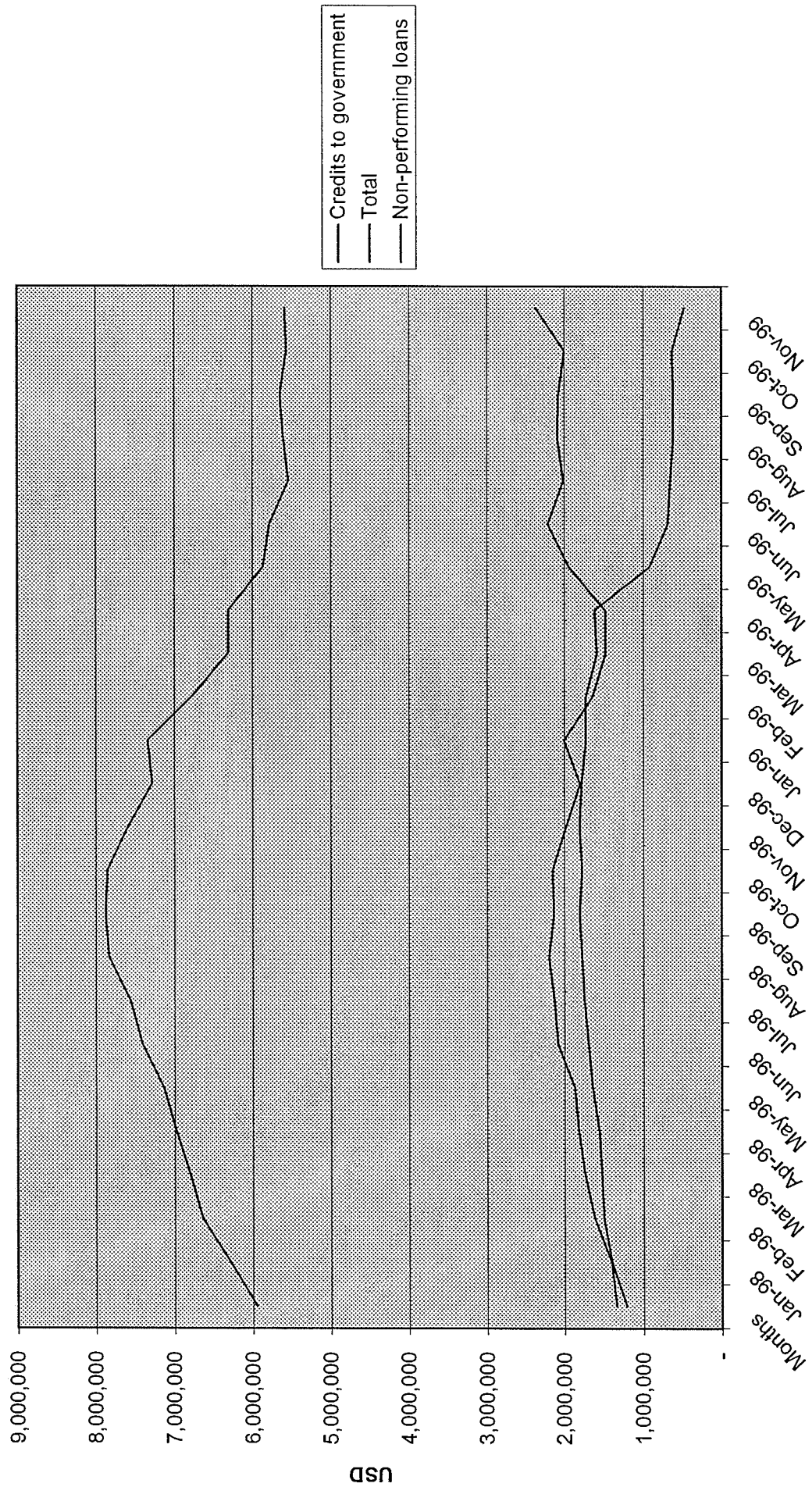




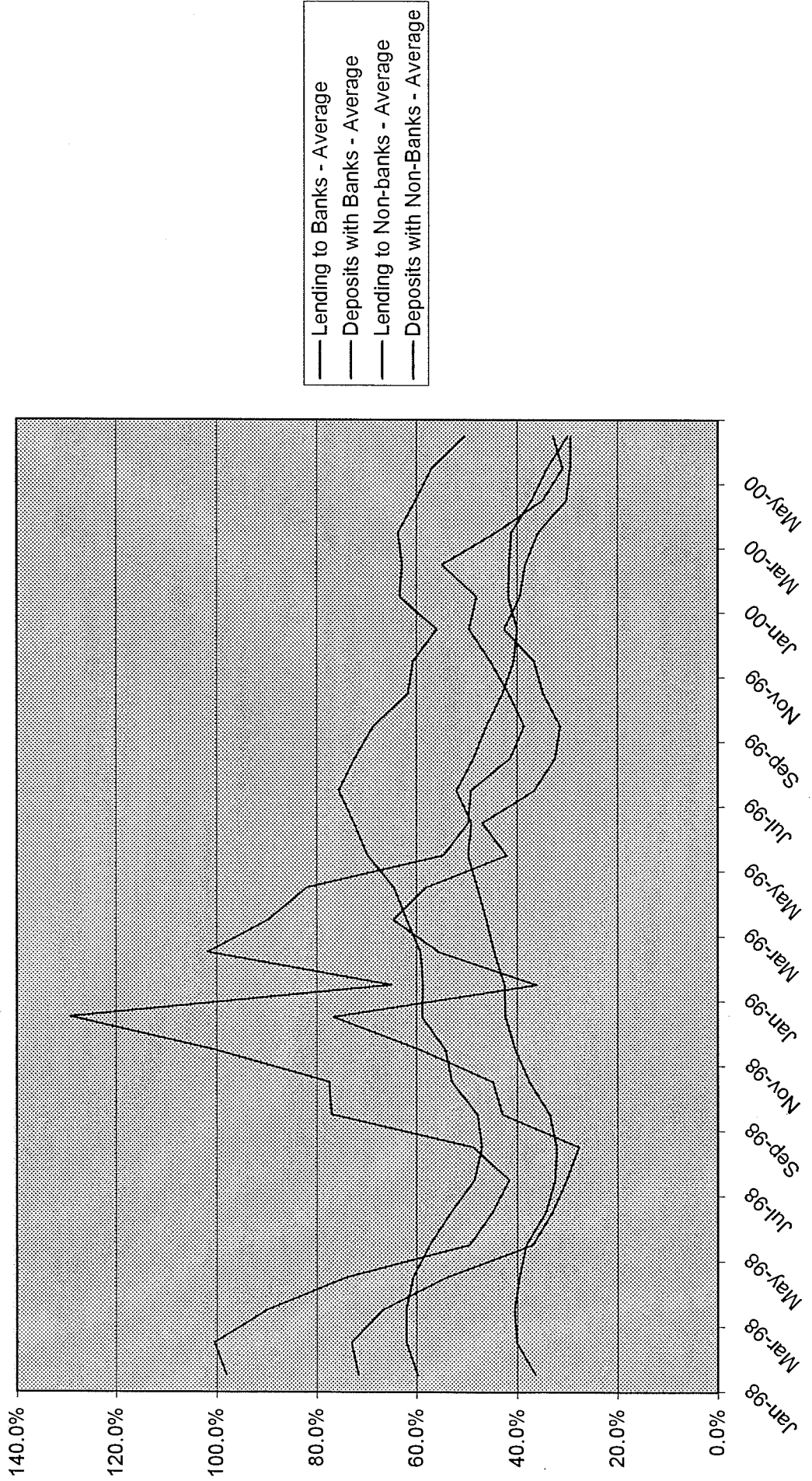
Deposit and Broad Money trends 98/99



Non-Performing Loans as a Percentage of Total Loans



Bank Interest Trends 98/99/00



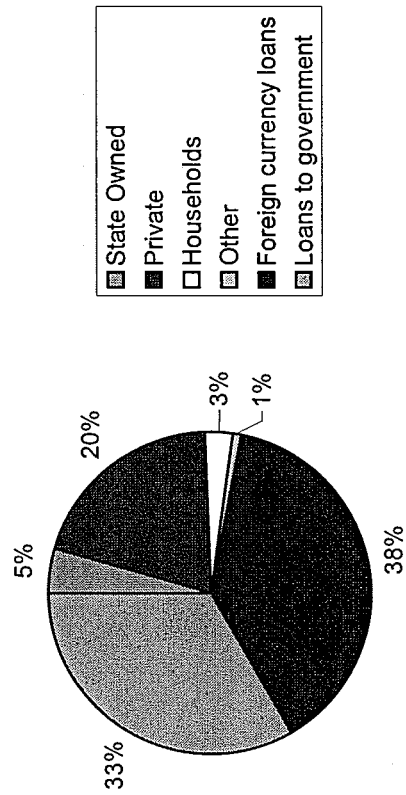


Annex	Months	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98
Average Exchange Rate		8,293.40	8,230.90	8,207.09	8,379.62	8,477.25	8,569.36	8,699.43	8,781.24	9,050.14
Private Capital as a Percent of total capital										
Total Capital		993,297	940,737	1,153,427	1,203,844	873,427	946,560	976,455	1,058,638	1,023,080
Private Capital		*	*	*	*	*	*	*	*	*
Non-performing loans		1,210,848	1,395,601	1,498,181	1,525,857	1,557,129	1,641,203	1,694,526	1,744,616	1,773,937
As a percentage of Total Loans		20.35%	22.18%	22.54%	22.44%	22.30%	22.99%	22.87%	23.05%	22.63%
As a percentage of non-government loans		26.26%	28.53%	29.76%	30.15%	30.19%	31.16%	31.84%	32.06%	31.47%
Overdue Loans										
Short term		241,048	251,407	260,809	274,849	275,720	274,905	284,285	298,269	277,280
Medium & Long Term		107,423	93,337	95,095	99,716	96,623	107,867	102,131	103,847	103,973
Convertible currency		862,377	1,050,857	1,142,276	1,151,291	1,184,785	1,258,431	1,308,110	1,342,500	1,392,684
Real Growth of credit to the Non-financial private sector										
Lei Denominated										
State Owned		785,408	795,259	795,982	803,688	792,356	802,942	824,893	814,395	806,794
Private		1,016,145	1,136,534	1,187,875	1,261,501	1,228,464	1,261,039	1,276,624	1,301,741	1,388,409
Households		201,811	214,484	224,611	221,967	229,792	235,572	246,108	257,822	273,322
Other		46,254	41,478	45,144	29,882	32,617	34,705	36,991	38,890	37,767
FX Denominated										
State Owned		634,673	545,153	440,119	364,360	367,997	428,293	414,786	439,084	431,938
Private		1,811,754	2,062,071	2,149,983	2,180,278	2,309,275	2,424,312	2,443,965	2,510,056	2,618,534
Households		6,487	6,463	6,921	6,874	6,936	6,803	7,575	7,835	8,121
Other		109,051	89,966	183,914	191,858	190,663	74,066	70,821	71,562	71,159
Credits to government		1,338,715	1,400,029	1,613,264	1,739,602	1,823,433	1,872,287	2,087,528	2,127,080	2,201,215
Total		5,950,298	6,291,438	6,647,813	6,800,010	6,981,533	7,140,020	7,409,290	7,568,464	7,837,260
Non-performing loans		1,210,848	1,395,601	1,498,181	1,525,857	1,557,129	1,641,203	1,694,526	1,744,616	1,773,937
Total Loans less Credits to Government		4,611,583	4,891,409	5,034,549	5,060,408	5,158,100	5,267,733	5,321,762	5,441,384	5,636,045
Private household and other as a percent of total non-government credits		69.21%	72.60%	75.45%	76.92%	77.50%	76.63%	76.71%	76.96%	78.02%
Private household and other as a percent of total credits		28.61%	27.85%	31.20%	32.21%	32.71%	31.14%	33.05%	33.07%	33.07%
Bank Interest Rate Spreads										
Lending to Banks - Average		71.7%	73.1%	66.8%	54.1%	36.9%	33.0%	30.1%	27.7%	42.9%
Deposits with Banks - Average		98.1%	100.5%	89.9%	74.1%	49.5%	44.9%	41.6%	48.8%	77.0%
Lending to Non-banks - Average		59.8%	62.0%	62.1%	60.7%	57.4%	53.2%	48.5%	47.0%	47.9%
Deposits with Non-Banks - Average		36.3%	40.1%	40.6%	39.6%	38.2%	34.3%	32.4%	32.1%	33.5%
Non-bank rate gap - Average		23.5%	21.9%	21.5%	21.1%	19.2%	18.9%	16.1%	14.9%	14.4%
Real growth of household deposits										
Household - Checking accounts		71,527	68,328	75,215	74,514	77,643	78,174	78,706	80,501	72,319
Household - Savings		2,507,211	2,659,600	2,732,576	2,790,150	2,881,725	2,935,248	2,965,378	3,002,708	2,942,131
Households - FX deposits		688,403	785,819	798,748	784,809	807,951	831,579	850,676	876,232	908,317
Total Household deposits		3,267,140	3,513,747	3,606,540	3,649,473	3,767,318	3,845,001	3,894,761	3,959,441	3,922,768
Household deposits % of Broad Mny		36.64%	36.84%	35.51%	36.49%	37.09%	37.32%	46.59%	46.75%	46.48%
Households % of total deposits		41.40%	41.40%	39.38%	40.93%	41.71%	42.25%	54.39%	54.67%	54.50%
Non-FX households % of total		32.68%	32.14%	30.66%	32.13%	32.76%	33.11%	42.51%	42.57%	41.88%
Broad Money		8,916,729	9,538,398	10,156,085	10,002,530	10,156,737	10,301,890	8,359,927	8,469,146	8,438,798
Demand deposits		801,505	847,222	873,391	782,804	778,602	818,194	1,001,376	992,047	962,571
Household savings		2,507,211	2,659,600	2,732,576	2,790,150	2,881,725	2,935,248	2,965,378	3,002,708	2,942,131
Lei deposits		755,637	773,524	800,686	831,255	812,480	808,182	816,801	814,145	868,650
Residents FX deposits		3,827,019	4,207,462	4,750,502	4,511,684	4,560,193	4,538,297	2,377,225	2,434,189	2,424,515
Currency Outside Banks		1,025,358	1,050,590	998,929	1,086,636	1,123,737	1,201,968	1,199,148	1,226,057	1,240,931
Total Deposits		7,891,371	8,487,808	9,157,156	8,915,894	9,033,000	9,099,921	7,160,779	7,243,089	7,197,867

Annex	Months	Oct-98	Nov-98	Dec-98
Average Exchange Rate		9,380.68	9,908.86	10,528.59
Private Capital as a Percent of total capital				
Total Capital		913,099	1,068,239	1,069,875
Private Capital		*	*	*
Non-performing loans		1,805,627	1,776,377	1,807,553
As a percentage of Total Loans		22.90%	22.62%	23.81%
As a percentage of non-government loans		31.41%	31.19%	32.21%
Overdue Loans				
Short term		276,900	263,665	255,467
Medium & Long Term		102,398	100,417	103,042
Convertible currency		1,426,328	1,412,295	1,449,044
Real Growth of credit to the Non-financial private sector				
Lei Denominated				
State Owned		776,564	732,415	667,117
Private		1,442,678	1,427,197	1,320,376
Households		281,099	281,435	277,112
Other		38,750	37,058	40,803
FX Denominated				
State Owned		429,564	435,671	447,372
Private		2,700,540	2,702,178	2,780,876
Households		8,198	8,528	10,419
Other		71,072	70,987	67,948
Credits to government		2,135,112	2,157,514	1,978,689
Total		7,883,576	7,852,982	7,590,713
Non-performing loans		1,805,627	1,776,377	1,807,553
Total Loans less Credits to Government		5,748,464	5,695,468	5,612,024
Private household and other as a percent of total non-government credits		79.02%	79.49%	80.14%
Private household and other as a percent of total credits		32.15%	32.54%	31.29%
Bank Interest Rate Spreads				
Lending to Banks - Average		44.8%	59.4%	76.7%
Deposits with Banks - Average		77.5%	100.8%	129.2%
Lending to Non-banks - Average		53.0%	54.3%	58.9%
Deposits with Non-Banks - Average		37.5%	40.4%	42.3%
Non-bank rate gap - Average		15.5%	13.9%	16.6%
Real growth of household deposits				
Household - Checking accounts		88,608	92,554	73,077
Household - Savings		2,910,887	2,848,693	2,941,201
Households - FX deposits		934,847	954,398	1,034,801
Total Household deposits		3,934,342	3,895,645	4,049,080
Household deposits % of Broad Mny		47.15%	48.10%	47.02%
Households % of total deposits		55.01%	55.82%	53.87%
Non-FX households % of total		41.94%	42.15%	40.11%
Broad Money		8,343,755	8,098,480	8,610,517
Demand deposits		928,653	879,153	827,404
Household savings		2,910,887	2,848,693	2,941,201
Lei deposits		892,856	883,028	878,750
Residents FX deposits		2,419,547	2,367,548	2,868,523
Currency Outside Banks		1,191,811	1,120,058	1,094,639
Total Deposits		7,151,944	6,978,421	7,515,878

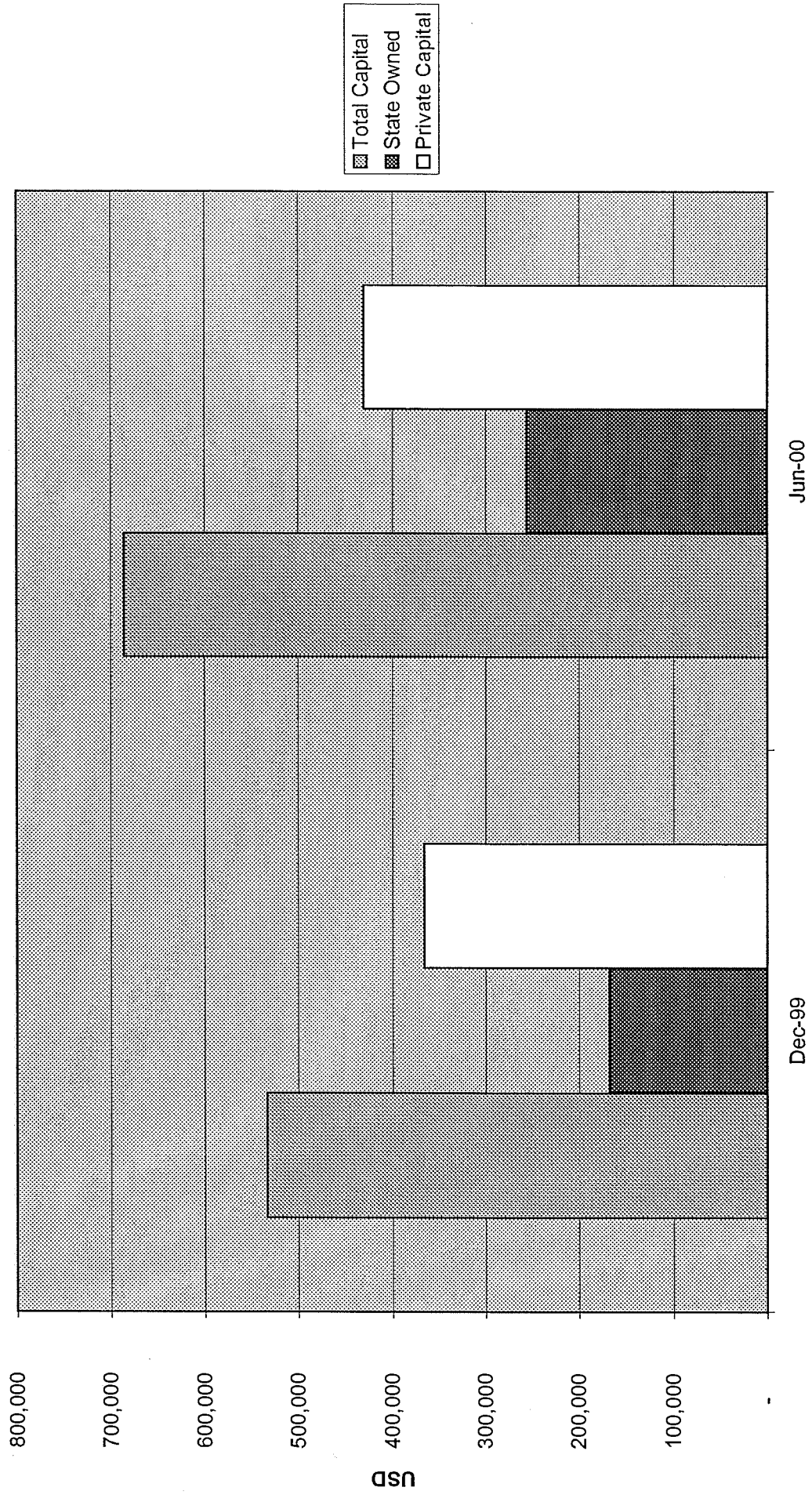
Annex	Months	Jan-99	Feb-99	Mar-99	Apr-99	May-99	Jun-99	Jul-99	Aug-99	Sep-99	Oct-99
Average Exchange Rate		11,353.60	12,271.00	14,053.52	14,792.62	15,237.81	15,756.50	15,920.96	16,100.95	16,358.71	16,705.57
Private Capital as a Percent of total capital											
Total Capital		1,031,554	1,002,988	1,130,916	1,204,435	413,883	549,816	622,465	552,698	917,022	920,412
Private Capital		*	*	*	*	*	*	*	*	*	*
Non-performing loans		1,783,178	1,726,053	1,722,200	1,581,034	1,613,562	916,998	689,538	653,216	615,334	620,647
As a percentage of Total Loans		24.49%	23.51%	25.42%	25.02%	25.56%	15.63%	11.92%	11.80%	10.99%	10.99%
As a percentage of non-government loans		32.54%	32.37%	33.55%	32.64%	33.38%	23.36%	19.30%	18.55%	17.52%	17.40%
Overdue Loans											
Short term		260,858	210,580	176,808	178,895	165,850	154,152	144,130	111,337	113,440	116,527
Medium & Long Term		97,071	90,400	79,767	76,672	72,394	41,200	59,949	58,837	57,303	52,674
Convertible currency		1,425,250	1,425,073	1,465,625	1,325,467	1,375,318	721,646	485,458	483,041	444,591	451,447
Real Growth of credit to the Non-financial private sector											
Lei Denominated											
State Owned		633,491	556,043	490,262	438,056	421,635	395,259	391,949	278,630	218,092	219,735
Private		1,297,183	1,232,638	1,096,088	1,086,163	1,047,644	966,027	928,562	1,009,810	1,085,061	1,100,992
Households		254,413	235,319	208,973	197,328	187,822	170,990	172,709	167,319	162,708	157,887
Other		39,609	33,917	30,974	47,672	45,768	43,652	52,648	51,550	50,854	47,894
FX Denominated											
State Owned		455,345	437,144	474,230	353,007	343,068	316,257	291,044	226,353	189,385	211,367
Private		2,725,188	2,756,377	2,750,272	2,659,056	2,721,874	1,978,879	1,677,725	1,732,395	1,747,369	1,777,132
Households		10,455	10,863	12,687	12,216	12,338	13,442	14,987	15,670	17,281	17,814
Other		63,839	69,750	69,627	50,809	54,207	41,576	42,648	39,010	42,430	34,911
Credits to government		1,802,618	2,008,426	1,642,962	1,473,924	1,478,500	1,940,786	2,213,208	2,015,036	2,087,567	2,079,306
Total		7,282,140	7,340,478	6,776,075	6,318,232	6,312,856	5,866,868	5,785,480	5,535,773	5,600,747	5,647,039
Non-performing loans		1,783,178	1,726,053	1,722,200	1,581,034	1,613,562	916,998	689,538	653,216	615,334	620,647
Total Loans less Credits to Government		5,479,522	5,332,051	5,133,113	4,844,307	4,834,356	3,926,081	3,572,272	3,520,736	3,513,180	3,567,732
Private household and other as a percent of total non-government credits		80.13%	81.37%	81.21%	83.67%	84.18%	81.88%	80.88%	85.66%	88.40%	87.92%
Private household and other as a percent of total credits		29.81%	32.13%	29.00%	28.20%	28.17%	37.68%	43.15%	41.34%	42.15%	41.40%
Bank Interest Rate Spreads											
Lending to Banks - Average		36.1%	55.4%	64.6%	58.2%	42.1%	46.9%	36.6%	32.4%	31.4%	34.8%
Deposits with Banks - Average		65.0%	101.8%	89.7%	82.0%	54.7%	49.8%	49.2%	41.4%	38.6%	41.7%
Lending to Non-banks - Average		58.7%	59.2%	61.9%	64.5%	69.8%	72.6%	75.6%	72.4%	68.6%	61.7%
Deposits with Non-Banks - Average		42.5%	44.5%	46.1%	47.9%	49.8%	49.1%	52.1%	48.7%	46.1%	42.9%
Non-bank rate gap - Average		16.2%	14.7%	15.8%	16.6%	20.0%	23.5%	23.5%	23.7%	22.5%	18.8%
Real growth of household deposits											
Household - Checking accounts		51,737	57,322	52,172	49,741	55,474	52,880	58,376	57,419	38,383	44,985
Household - Savings		2,861,128	2,685,918	2,284,851	2,091,786	1,947,366	1,917,602	2,023,031	2,063,288	2,089,297	2,077,744
Households - FX deposits		1,018,303	1,025,695	1,041,952	988,108	954,711	909,758	927,067	919,716	945,802	1,019,756
Total Household deposits		3,931,167	3,768,935	3,378,976	3,129,635	2,957,551	2,880,240	3,008,474	3,040,423	3,073,482	3,142,485
Household deposits % of Broad Mny		48.54%	47.91%	47.13%	46.80%	44.99%	43.85%	43.95%	44.13%	44.04%	45.11%
Households % of total deposits		55.20%	54.58%	53.21%	53.36%	51.48%	50.64%	50.90%	50.88%	50.99%	52.15%
Non-FX households % of total		40.91%	39.73%	36.80%	36.51%	34.86%	34.65%	35.22%	35.49%	35.30%	35.23%
Broad Money		8,099,061	7,866,229	7,170,026	6,687,166	6,573,628	6,568,565	6,844,964	6,889,413	6,979,224	6,966,736
Demand deposits		627,422	562,521	553,513	494,584	524,130	544,385	547,165	543,285	536,803	513,026
Household savings		2,861,128	2,685,918	2,284,851	2,091,786	1,947,366	1,917,602	2,023,031	2,063,288	2,089,297	2,077,744
Lei deposits		836,986	834,235	737,495	722,887	736,582	756,932	810,284	861,154	824,649	795,824
Residents FX deposits		2,795,501	2,822,199	2,774,237	2,555,747	2,536,972	2,468,207	2,529,791	2,508,318	2,577,330	2,639,216
Currency Outside Banks		978,025	961,356	819,930	822,160	828,577	881,439	934,692	913,368	951,145	940,926
Total Deposits		7,121,036	6,904,873	6,350,096	5,865,006	5,745,051	5,687,126	5,910,272	5,976,045	6,028,079	6,025,811

Loans by Category 06/00



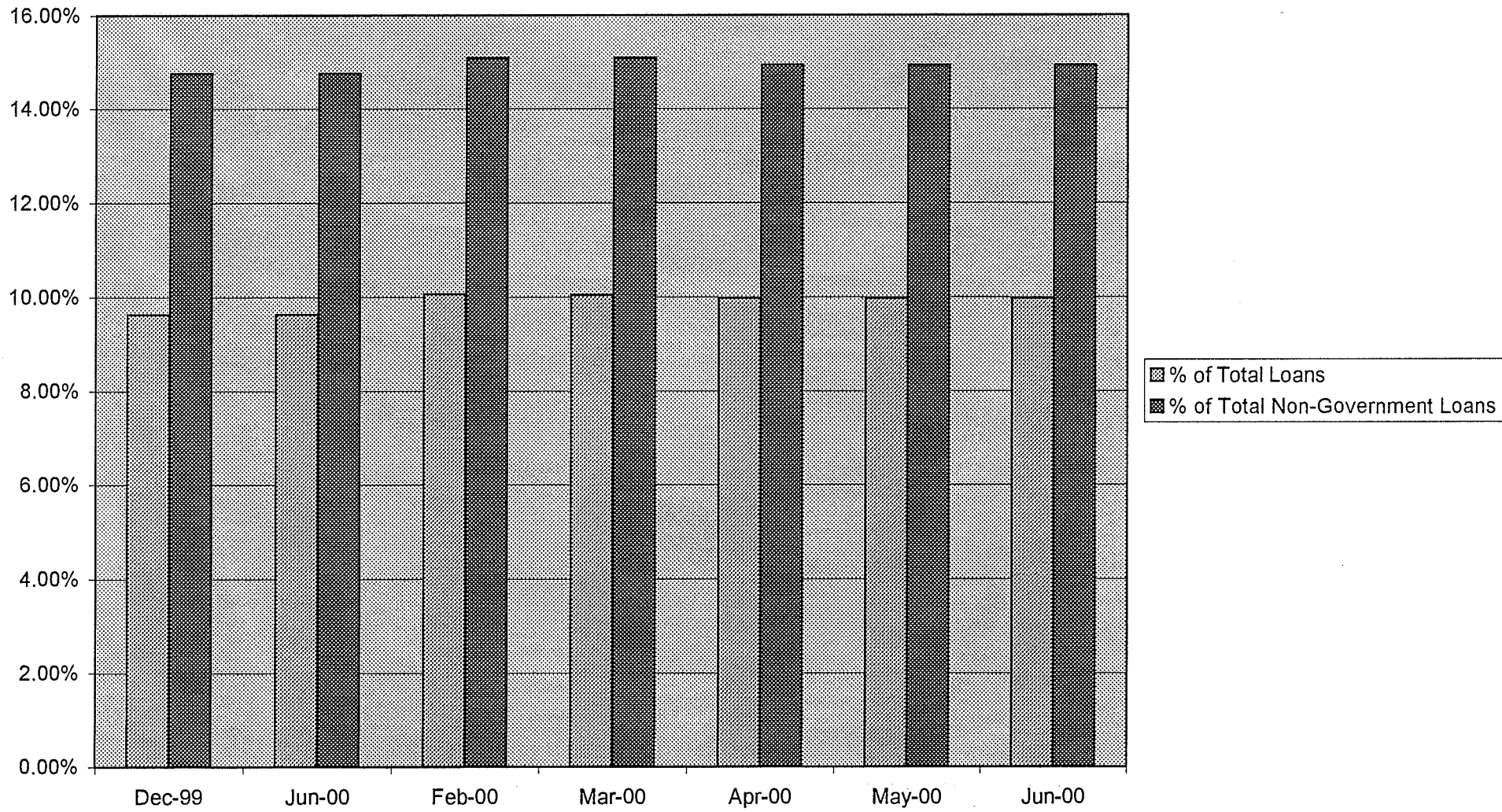


# Capital Trends

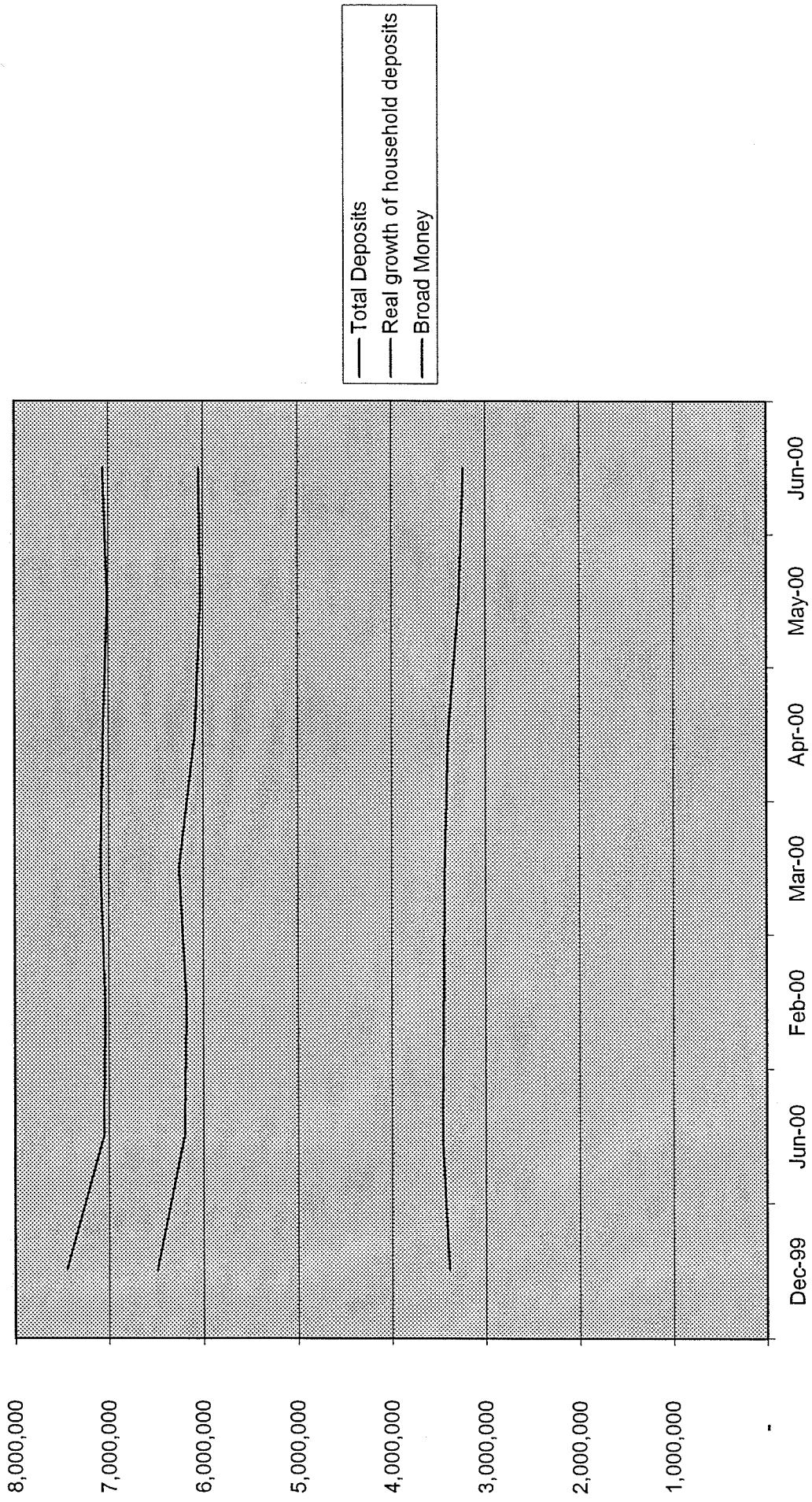




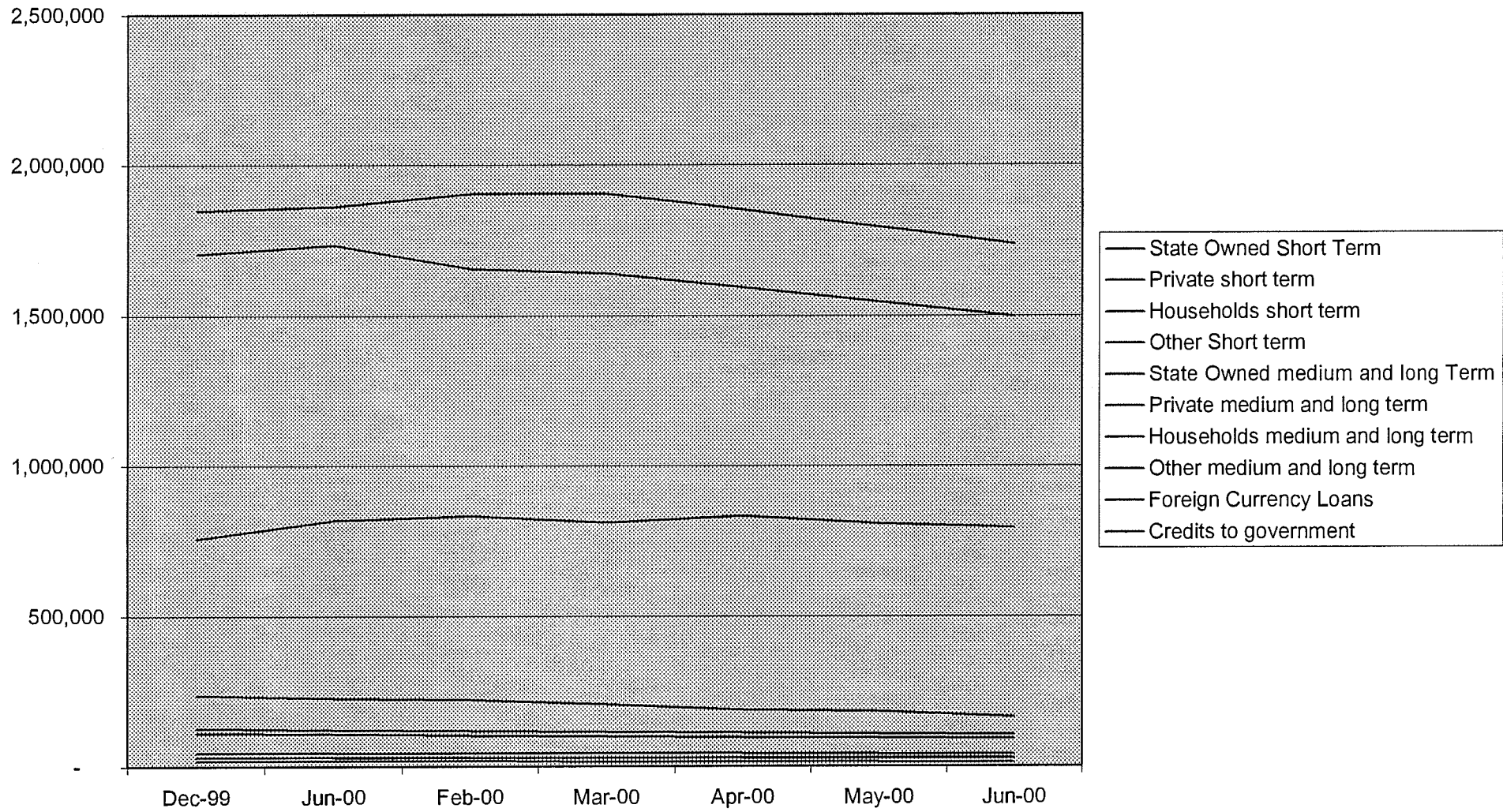
Non-Performing Loans as a Percentage of Total Loans



# Deposit and Broad Money Trends 2000

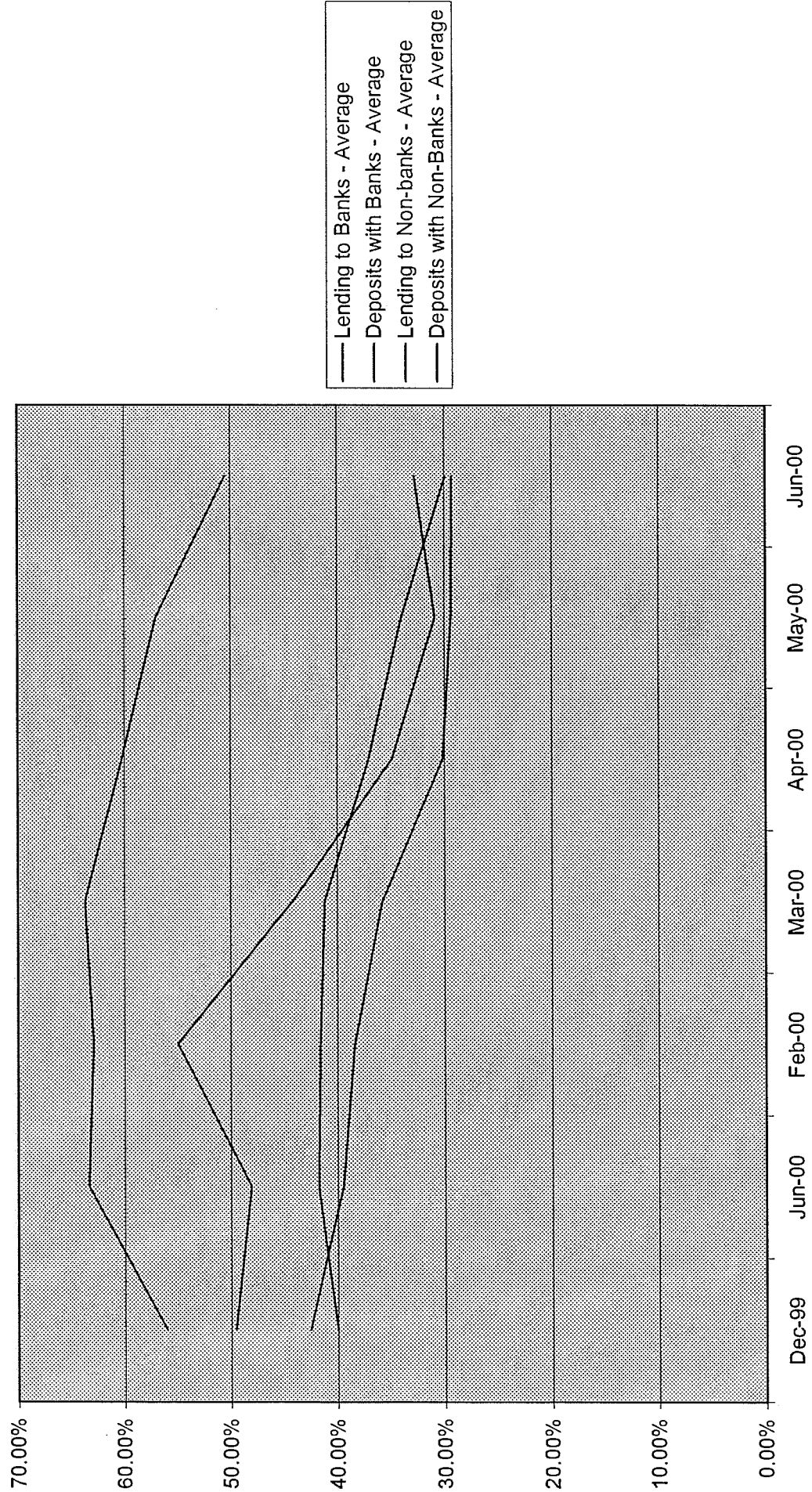


## 2000 Loan Trends

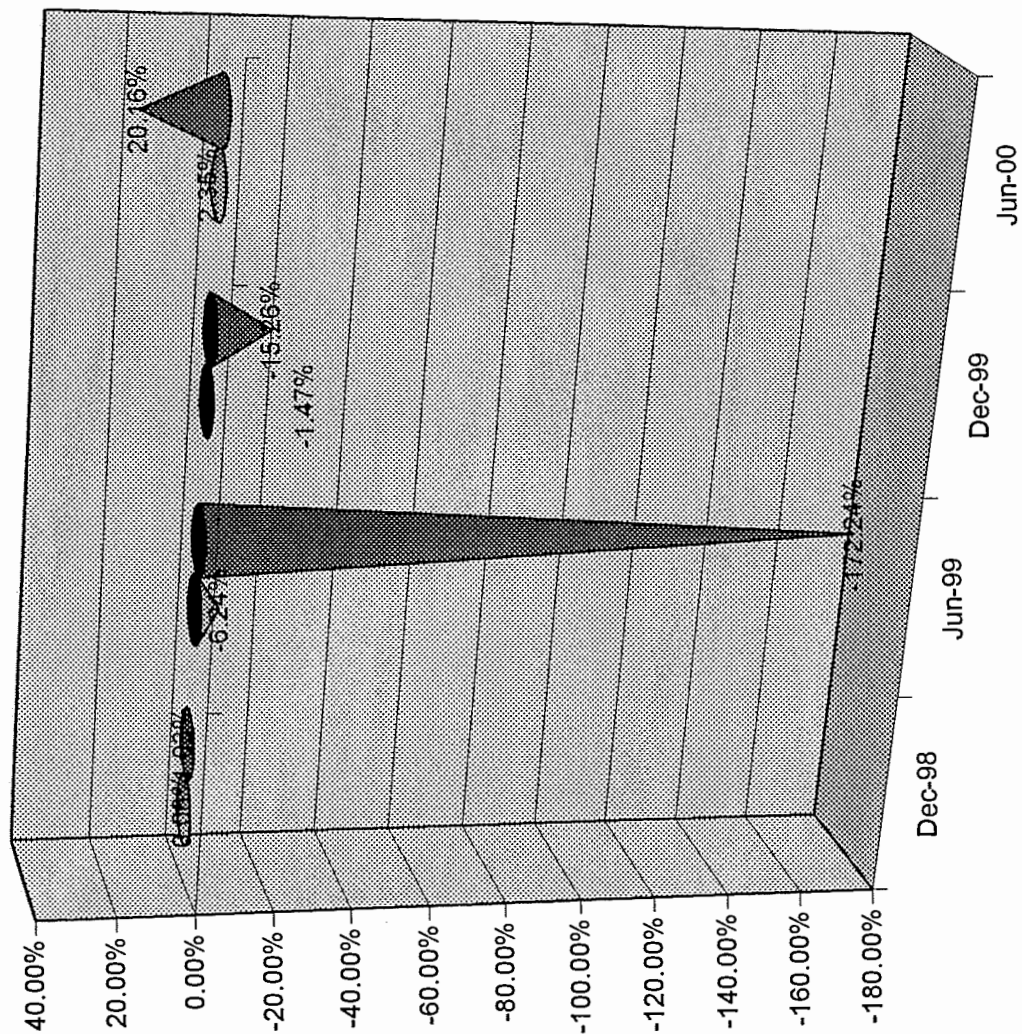




Bank Interest Trends 2000



# ROA/ROE 98-99-00



Return on Assets  
Return on Equity





Month	Dec-99	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00
Average Exchange Rate	17,896.43	18,252.55	16,701.71	19,207.09	19,758.50	20,363.20	21,030.60
Private Capital as a Percent of Total Capital	66.44%	62.73%	0.00%	0.00%	0.00%	0.00%	62.73%
Total Capital	532,844	685,687	846,073	550,972	552,841	593,061	568,371
State Owned	167,108	255,621	-	-	-	-	222,883
Private Capital	365,636	430,066	-	-	-	-	-
Non-performing loans	473,241	480,906	498,907	491,609	477,890	463,016	448,943
As a percentage of Total Loans	9.63%	9.63%	10.06%	10.04%	9.87%	9.87%	9.97%
As a percentage of non-government loans	14.76%	14.75%	15.10%	15.09%	14.94%	14.94%	14.93%
Real Growth of credit to the Non-financial private sector							
Short Term							
State Owned Short Term	236,027	225,556	221,425	206,184	198,941	181,425	163,886
Private short term	756,965	818,673	834,655	818,636	855,171	829,601	795,774
Households short term	32,270	28,816	28,833	29,317	28,686	25,565	29,169
Other Short Term	18,384	18,082	19,870	15,354	14,826	14,451	14,023
State Owned medium and long term	44,979	44,888	44,211	44,392	43,154	41,811	40,543
Private medium and long term	126,778	123,618	118,377	115,245	112,039	108,550	105,265
Households medium and long term	112,163	107,876	103,724	99,576	96,797	93,785	90,942
Other medium and long term	30,776	30,367	29,835	29,203	28,386	27,504	26,871
Foreign Currency Loans	1,848,953	1,852,276	1,803,696	1,805,038	1,851,870	1,794,234	1,739,354
Credits to government	1,705,130	1,726,230	1,655,517	1,639,937	1,594,171	1,544,555	1,497,742
Total	4,912,404	4,995,627	4,960,243	4,896,880	4,792,343	4,644,493	4,504,887
Total Loans less c/g	3,207,274	3,259,308	3,304,726	3,256,943	3,199,172	3,099,038	3,007,178
% of Total Loans	9.63%	9.63%	10.06%	10.04%	9.87%	9.87%	9.97%
% of Total Non-Government Loans	14.76%	14.75%	15.10%	15.09%	14.94%	14.94%	14.93%
Private household and other as a percent of total non-government credits	60.13%	72.09%	72.09%	72.72%	71.99%	71.96%	71.93%
Private household and other as a percent of total credits	29.81%	60.73%	62.16%	62.30%	62.53%	62.64%	63.11%
Bank Interest Rate Spreads							
Lending to Banks - Average	42.80%	39.50%	38.40%	35.60%	30.20%	29.40%	29.30%
Deposits with Banks - Average	49.60%	48.10%	55.00%	44.20%	34.90%	30.90%	32.80%
Lending to Non-Banks - Average	58.00%	63.40%	62.90%	63.70%	60.20%	57.00%	50.50%
Deposits with Non-Banks - Average	40.00%	41.80%	41.90%	41.20%	37.10%	34.20%	29.90%
Real growth of household deposits	3,391,083.7	3,481,613.9	3,443,916.0	3,433,614.1	3,393,154.2	3,280,640.2	3,232,072.3
Household - Checking accounts	41,414	48,849	53,611	46,848	52,557	45,205	44,588
Household - Savings	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Households - FX deposits - demand	1,168,887	281,321	272,002	273,773	270,288	272,153	267,101
Households - FX deposits - term	913,874	876,686	874,851	892,071	874,256	863,719	863,719
Total Households	3,391,084	3,481,740	3,467,230	3,466,764	3,401,087	3,268,952	3,268,952
Households % of Broad Money	45.50%	45.08%	48.83%	48.49%	48.77%	45.77%	45.77%
Households % of total deposits	52.28%	55.86%	55.78%	54.94%	55.79%	54.45%	53.50%
Non-FX Households % of total	34.26%	36.57%	37.17%	36.96%	36.68%	35.42%	34.76%
Broad Money	7,458,472	7,693,281	7,037,688	7,084,188	7,081,181	7,014,398	7,041,815
Demand deposits	653,310	495,676	498,381	519,507	523,607	512,465	513,897
Time deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	809,206	828,121	770,322	725,367	725,372
Resident FX deposits	2,180,789	2,219,678	2,241,617	2,236,146	2,178,242	2,088,894	2,056,668
Resident FX deposits	818,296	789,329	8				

# Bank List

1	ING Bank NV - Branch
2	Banque Franco-Roumaine Branch
3	MISR Romanian Bank - Branch
4	Frankfurt-Bucharest Bank-Branch
5	National Bank of Greece - Branch
6	Banca Italo-Romena SA - Branch
7	United Garanti Bank International NV Amsterdam- Branch
6	Bankcoop
24	Libra Bank
25	Astra
26	Unirea
4	Romanian Development Bank
5	Ion Tiriac Commercial Bank
14	Columna
15	Banca Transilvania
17	Robank
18	Daewoo
19	MIND BANK
20	Banca Romaneasca
23	West Bank
27	Demirbank
34	Carpatia Commercial Bank
10	ABN AMRO
12	Citibank Romania
13	Banca Bucuresti
28	Black Sea Bank
29	Raffaelsenbank
31	Bank Austria-Creditanstalt Bank
32	Romanian International Bank
33	BNP Dresdner
3	CEC
9	International Religions Bank
16	BCIC
30	Dacia Felix
11	Eximbank
1	Romanian Commercial Bank
2	Banca Agricola
21	Romexterra
22	Pater
7	Banc Post
8	Banca Turco-Romana

# Bank List

Branch
Branch
Branch
Branch
Branch
Branch
Branch
Branch
Domestic Private Capital
Domestic Private Capital
Domestic Private Capital
Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign and Domestic Private Capital
Foreign Capital
Foreign Capital
Foreign Capital
Foreign Capital
Foreign Capital
Foreign Capital
Foreign Capital
Foreign Capital
State Owned
State Owned and Domestic and Foreign Private Capital
State Owned and Domestic and Foreign Private Capital
State Owned and Domestic and Foreign Private Capital
State Owned and Domestic Capital
State Owned and Domestic Capital
State Owned and Domestic Capital
State Owned and Domestic Capital
State Owned and Domestic Capital
State Owned and Foreign Private Capital
State Owned and Foreign Private Capital

---

**16. Attachments <sup>1</sup>**

- |                                                               |                                  |
|---------------------------------------------------------------|----------------------------------|
| <b>A. Supervisory Assessment</b>                              | (Supervisory_Assessment.pdf)     |
| <b>B. Quarterly Supervision Report</b>                        | (Quarterly_Supervision_Repo.pdf) |
| <b>C. Standardized Report of Examination</b>                  | (ROEFormat.doc)                  |
| <b>D. Uniform Bank Rating System</b>                          | (Uniform_Bank_Rating_System.pdf) |
| <b>E. Handbook for Bank Examiners</b>                         | (Manual.zip)                     |
| <b>F. Financial Institution Rehabilitation and Resolution</b> | (firr.zip)                       |
| <b>G. Examiner Training and Development Policy</b>            | (Trng Develop Policy.doc)        |
| <b>H. Decision Matrix for Progressive Enforcement Actions</b> | (AP 1 Matrix.xls)                |
| <b>I. Administrative Matters</b>                              |                                  |
| <b>a. Biographies</b>                                         |                                  |
| <b>b. Summary of Project Expenses</b>                         |                                  |
| <b>c. Inventory of Equipment</b>                              |                                  |

---

<sup>1</sup> Please refer to the CD Rom provided with this report.

---

**Administrative Matters****a. Biographies of Resident Advisors****John F. Ewald III**

Mr. Ewald is a Manager with Barents Group, who specializes in international accounting and Management Information Systems for financial institutions and financial sector government supervision. Mr. Ewald has over 25 years of experience specializing in financial and regulatory reporting, MIS, financial systems, profit generation, and risk reduction. His experience as a commercial banker with several large multinational groups provided him substantial knowledge of worldwide accounting practices and systems. He has worked throughout Europe, Asia, and Latin America including Romania, Kosovo, Bosnia-Herzegovina, Portugal, Russia, Croatia and the Philippines.

**Mary Kathryn Woolford**

Ms. Woolford is a Manager with Barents Group. She is an international consultant, specializing in banking supervision, problem bank resolution, and central bank operations. Ms. Woolford has over 20 years of financial sector regulatory experience having worked with the Federal Deposit Insurance Corporation's Division of Liquidation as well as serving as the resident advisor on USAID bank supervision reform programs in Latvia and Romania. She has worked extensively with problem bank supervision, resolution and liquidation; onsite bank supervision policy development; offsite analysis and early warning systems; and, bank examiner training and accreditation.

**Harold Poppa, Jr.**

Mr. Poppa is a bank regulation and supervision expert with over 19 years experience with the Office of the Comptroller of the Currency (OCC). As an advisor for Barents Group, duties include responsibility for training Bank Supervision Department personnel; onsite examination and offsite monitoring of licensed banks and other associated regulatory responsibilities; development and implementation of supervisory policies and procedures for onsite and offsite bank supervision activities; and the development, refinement and implementation of Bank Supervision Department operating policies and procedures. Mr. Poppa has participated in numerous bank supervision technical assistance projects in Kosovo, Bosnia-Herzegovina, Bulgaria, Serbia, Romania, Egypt, West Bank and Gaza, and the Peoples Republic of China. While at the OCC, Mr. Poppa held several senior examiner positions and was responsible for some of the largest banks in the U.S.

**Administrative Matters**

**b. Summary of Project Expenses**

**Total Monies Utilized to Provide Technical Assistance to the National Bank of  
Romania Bank Supervision Strengthening**

**Strengthening Bank Supervision- Omnibus B: Contract No. EPE-I-00-95-00048-00, Task Order No. 14 (May 1997 – April 1999)**

Labor		
	<u>Days</u>	<u>Cost</u>
Professional Staff	929	1,169,560.70
TCN/CCN	434	27,888.84
Total Labor Cost	1,363,000	1,197,449.54
Travel/Transportation		132,605.88
Other Direct Costs		6,994.18
Allowances		-
Equipment/Procurement		-
Total Other Costs		139,600.06
TOTAL MONIES UTILIZED		1,337,049.60
Contract Ceiling Price		1,339,822.75
Contract Amount Obligated		1,339,822.75

**National Bank of Romania-- Bank Supervision, Restructuring and Enforcement: Phase II: Contract No. NIS-I-00-99-00001-00, Task Order No. 1 (May 1999 – July 2000)**

Labor (includes Salary, OH, Fringe, Adm Rec)	
	<u>Cost</u>
Professional Staff	386,892.65
TCN/CCN	8265.98
Fringe, OH, Admin. Recovery	717,948.03
Total Labor Cost	1,113,106.65
Travel/Transportation	272,192.45
Other Direct Costs	31,095.09
Allowances	161,275.00
Equipment/Procurement	7350.16
Consultants/Subcontractors	60,451.12
Local Hires	379.29
Total Other Costs	532,743.11
TOTAL Labor & Expenses	1,645,849.76
TOTAL Fee	123,480.51
TOTAL MONIES UTILIZED	1,769,330.27
Contract Ceiling Price	1,993,626.00
Contract Amount Obligated	1,993,626.00

---

**Administrative Matters**

**c. Inventory of Equipment**



United States Agency for International Development  
Bureau for Europe and the New Independent States (ENI)  
Privatization and Economic Restructuring (PER)  
Contract No. NIS-I-01-99-00001-00, Task Order NO. 801

Inventory of fixed assets

#	Quantity	Description	Original Cost*
1	1	Computer System including: 1 monitor LITE-ON TECHNOLOGY CORP., Model no. A1454NEL S/N: 004580018; 1 keyboard Model no. KWD - 203, Serial no. 7A006200588; 1 power unit Flamingo Classic CX166 XC7 802 00; 1 mouse Model OK-720 Genius Easy Mouse +PS 2 FCC ID: FSUGMZFR 0054 1845; 2speakers TEVION MD 9871 Multimedia-Aktiv-Lautsprecher Netzadapter: AC 15/800 mA CE 0039132; CDROM ATAPI 48XCDROM; Disk drives Generic IDE disk type 46, Generic NEC Floppy disk; Display adapters S3 VIRGE -DX/GX PCI (375/385); Floppy disk controllers Standard Floppy disk Controller; Keyboard Standard 101/102 - Key or Microsoft Natural Keyboard; Monitor A1454NEL; Mouse PS/2 Compatible Mouse Port; Modem: Boca 33.6 kbps Internal FD 34FSvd	1300
2	1	Fax: SAMSUNG Facsimile Transceiver model no. SF4100 Rating AC 220-240V; 50-60 Hz; 1.6A series/year 00025/1997	700
3	1	Switcher: Data Transfer Switch	15
4	1	Computer System including: 1 monitor KDS 17" Multi - Scan Color Monitor, Serial no. 1745BAB21017675, Model no. VS-71; 1 keyboard Model KFKEA4XT 13TD0167; 1 power unit IBM 6280-1309867; 3 mouses: 1) MOVA4TRFW33 (wireless) S/N KT 1024 308; 2) MOO9K S/N: 23-000884; 3) M0160455; CDROM LITEON CD-ROM LTN 4869; Disk drives Generic IDE disk typeL7; Display adapters Intel 82810E Graphics Controller; Floppy disk Standard Floppy disk controller; Keyboard Standard 101/102 key; Monitor Visual Sensations VS Ji; Mouse A4 Tech PS/2 Port Wireless Mouse; Modem Conexant HCE V80 56K Data Fax PCI Modem	1300
5	1	Printer: Hewlett Packard Laser Jet 6L >PC +ABS - FR< RB2-1695 Z2	100
6	1	Printer: Hewlett Packard Deskjet 610C S/N: HU9Bi1POKO C6450A	100
7	1	Printer: Hewlett Packard Laser Jet 6L >PC +ABS - FR< RB2-1695 1	100
8	1	Color Scanner 36 bit 600X1200 dpi Scanworks 600 P EPP	100
9	1	Electric Fan: Silver Crown 16" Stand FAN 220V/50 Hz	15
10	1	Overhead projector: 3M 9000	350
11	1	Shredder: ShredMaster Model no. 70 S-1 KN 175209	25
12	1	Coffee- maker Braun KF 130	30
13	1	Tea-maker Crystal - Zelmer stainless steel	30
14	2	Office lamps	30
15	1	Electric Fan: Splendid Type SFK 40 220-240V-50Hz 65W FN RWTUV GS CE	15
1	1	Computer system including: 1 monitor IBM G54 Type model 6546 - OAN A Serial no. 24-PXW 33 FCC ID: A3KMO78; 1 keyboard IBM Model no. KB-9910 S/N 0012081; 1 power unit IBM Personal Computer 300GL Intel inside Pentium III; 1 mouse ASM P/N: 10L6144 S/N: 23-148123 FRU P/N 10L6145 049; CDROM LITEON CD-ROM LTN 403; Disk drives Generic IDE disk type <7 Generic NEC Floppy disk; Display adapters SR9 - 8MB SDRAM; Floppy disk controllers Standard Floppy disk controller; Keyboard Standard 101/102 Key or Microsoft Natural Keyboard; Monitor IBM 6546 ; Mouse PS/2 Compatible Mouse Port; Modem: Standard 2400 bps Modem	1800
2	1	Printer: hp Laser Jet 1200 series Model No. C7044A Serial no. CNBB 123981	100

All equipment was turned over to the National Bank of Romania upon project completion.